ANNUAL REPORT 2021

BETTER TOGETHER.

FM Global®


RESILIENCE IS A CHOICE.

CONTENTS

FM Global is a leading commercial property insurance company that forms long-term partnerships with its clients to support risk management objectives through a unique combination of those relationships and our engineering, underwriting and claims services. We work to help protect the value our clients' businesses create by safeguarding their properties with seamless, worldwide coverage and property loss prevention engineering solutions.

Industry Ratings

Rating Agency	*Financial Strength*	*Rating Outlook*
AM Best	**A+** (Superior)	Stable
Fitch	**AA** (Very Strong)	Stable
S&P Global	**A+** (Strong)	Stable

For additional ratings information, view "Industry Ratings" at fmglobal.com.

After more than 40 years of distinguished service, Thomas A. Lawson (right) retired as chief executive officer of the company on December 31, 2021. His leadership was instrumental during the pandemic and in the construction of the FM Global Research Campus. He remains chairman of the board of directors. He is succeeded as chief executive officer by Malcolm C. Roberts, who retains his title as president.

BETTER TOGETHER.

This never felt truer than in 2021.

Throughout the year, FM Global and our clients worked together to remain resilient, and that resilience is reflected in our financial performance.

At the end of 2021, our combined ratio was 83.1% and pretax income from insurance operations was US$981.3 million. Those results, coupled with the outstanding performance of our investment portfolio, grew our surplus to US$19.4 billion—a position that enables us to provide large limits and capacity, innovate products and services, and invest in our future.

As a mutual company, everything we do is for the benefit of our clients, who are also our owners. And when we can, we share our success with them. One way we do that is in the form of membership credit. Last year, our board of directors approved the distribution of approximately US$660 million in membership credit to eligible policyholders with renewal or anniversary dates in 2022. The credit, which is applied as an offset to premium, recognizes their risk improvement efforts, which continue to drive down losses.

Like many global companies, our clients had plenty to focus on in 2021. An ongoing pandemic, a global supply chain crisis, labor shortages, increasing climate risk. These were just a few of the worries keeping business leaders up at night. Yet through our collaborative approach of helping to assess risk and offering advice on risk reduction, our clients completed more than 43,000 risk improvement recommendations ranging from training for equipment operators to installing floodgates. It's safe to say these efforts averted a collective loss expectancy totaling hundreds of billions of U.S. dollars.

Such an accomplishment doesn't happen by chance. It takes hard work and dedication from both our clients and our employees, proving we really are better together.

2021 COMPLETED RISK IMPROVEMENTS

Human Element	30,050
Physical	13,299
TOTAL	43,349*

*Loss expectancy greater than US$100 million: 1,400

Risk improvements *reduce or eliminate exposure from an insured peril.*

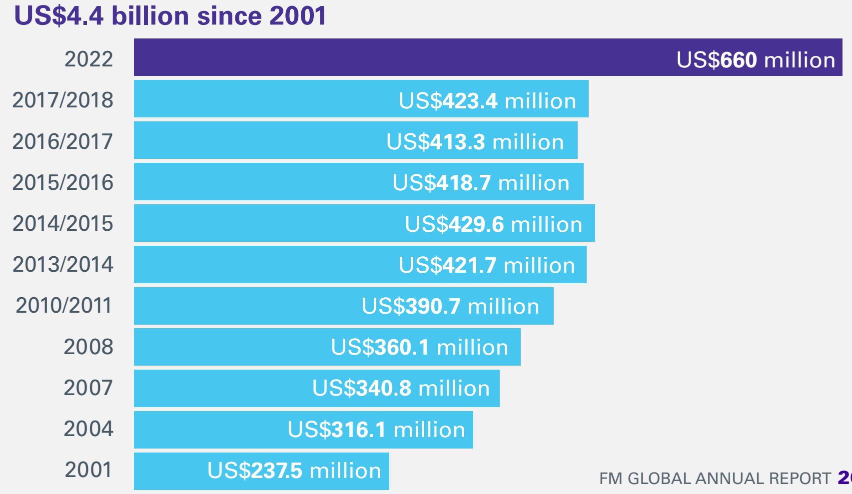
Human element risk improvements *involve people and process.*

Physical risk improvements *are exactly that: tangible items that are always present.*

MEMBERSHIP CREDIT HISTORY

As a mutual company, we share our success with our clients, who are also our owners. One way we do that is in the form of the membership credit program. By the end of 2022, we will have returned approximately US$4.4 billion in membership credit to eligible policyholders.

US$4.4 billion since 2001



Property loss prevention training is just one of many complimentary products and services provided to FM Global clients. In 2021, we hit the road with SimZone on Tour, an expandable tractor trailer designed to bring our hands-on SimZone learning experience to client facilities and other locations in the United States.

Helping Clients Mitigate Risk

In 2021, we helped clients better understand and mitigate modern operational exposure by expanding our boiler and machinery engineering services. These services now include evaluations of industrial control systems against cyber risks and associated resulting physical damage. And we leveraged new predictive analytics to assist in the prioritization of risk improvement for critical equipment.

Using technology to deliver on our value proposition, we released our Worldwide Earthquake Map, which incorporates soil data and buildings' structural performance to determine the probability of earthquake damage.

We provided training and resources to our employees to enhance their servicing of high-hazard industries. And, in that same spirit of education, we introduced SimZone on Tour—a 53-foot (16.2-meter) expandable tractor trailer designed to bring our SimZone learning experience to client locations across the United States.

Accelerating Business Agility

Throughout the year, we also continued work on two multiyear transformational initiatives—Enterprise Service Delivery and Digital Client Experience. As part of the first initiative, we established a new division to oversee and improve the quality and accelerate the delivery of our products and services around the world. By focusing first on the delivery of our insurance product (policies, invoices, certificates of insurance, etc.), we validated a new global operating model that will bring greater consistency to our delivery practices worldwide.

This standardization of internal practices is a first step toward achieving our digital aspirations, the basis of our second initiative—the creation of a personalized and highly secure online platform for our clients and partners. This platform will streamline processes and communications and provide on-demand access to data.

Our investment in technology is driven in part by the fundamental need to protect our clients' data and to provide secure ways to communicate and exchange information—essentially providing our clients what they want, when they want it, how they want it. In 2021, we built a cloud-native infrastructure to develop and securely deliver products, as well as a new platform to engage with our clients and partners. We shared a new dynamic Risk Report with the group of clients participating in our proof of concept (POC) and engaged them in a more transparent and streamlined renewal process. The platform is being built to meet client and partner needs, and we're working closely with the POC clients to gather their feedback so that we can develop new features and enhance functionality and usability based on their input.

LONG-TERM RELATIONSHIPS

21 YEARS

AVERAGE
FM GLOBAL CLIENT TENURE

68%

CLIENTS INSURED BY
FM GLOBAL FOR 10+ YEARS

44%

CLIENTS INSURED BY
FM GLOBAL FOR 20+ YEARS

Our investment in technology is driven in part by the fundamental need to protect our clients' data and to provide secure ways to communicate and exchange information—essentially providing our clients what they want, when they want it, how they want it.

Premium Trends

While there were signs of rate moderation and sustainable underwriting results in 2021, the market was as challenging as it was in 2020. Rate pressures were real, and in some cases, significant. FM Global was part of that cycle; we needed to work with our clients to return to a healthy, profitable state. As a result, our one- and three-year combined ratios are finally trending back to below 100%. That, along with our policyholders' surplus, enabled us to finish the year strong.

In 2021, our consolidated gross in-force premium grew by 8.1% to a high of US$7.9 billion, reflecting our strong client relationships and acquisition of new business. Our large commercial property business grew at a rate of 8.5% to US$6.2 billion, while AFM, positioned in the commercial property middle market, grew by 4.8% to US$1.3 billion. On a consolidated basis, FM Global and AFM are the sources of 94% of our overall premium in-force, with Mutual Boiler Re and FM Global Cargo representing the balance.

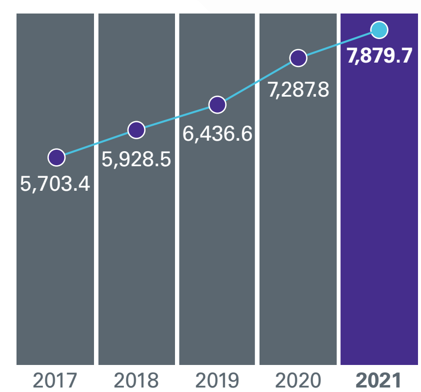
Loss Trends

Our consolidated loss ratio for the year was 56.5%. This is significantly lower than the planned ratio of 66.6% thanks to the risk improvement and mitigation efforts of our employees and our clients.

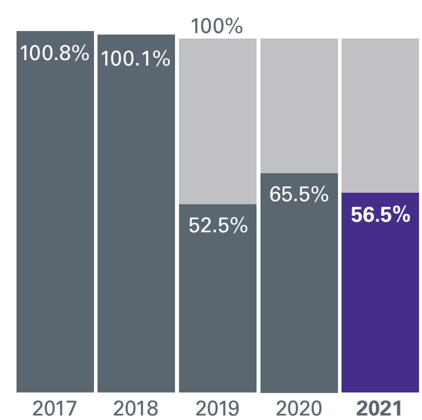
From an industry perspective, 2021 was one of the costliest years on record in terms of natural catastrophe losses. The year started with a deep freeze and ended with heavy rain and flooding, wildfires, tornadoes and a typhoon. However, our natural hazard loss ratio of 23.7% was below our plan of 26.7%. Consistent with findings in previous years, clients who implemented our recommendations weathered the elements with minimal damage. Likewise, clients who used FM Approved products, particularly against flood, fared well or as expected.

Our risk loss ratio, a measure of losses predominantly from fire, explosion and equipment breakdown, decreased to 29.8% and was below our plan of 37.0% despite several large losses. Our clear focus on boiler and machinery helped to ensure the resiliency of critical equipment. However, fire remains our clients' most significant risk exposure, and in 2021, they installed 70.2 million square feet (6.52 million square meters) of ceiling sprinklers worldwide, which is 30% higher than the previous year.

TOTAL GROSS PREMIUM IN-FORCE, US$M



LOSS RATIO



INDUSTRY AND PUBLIC RECOGNITION

CLIMATE RESILIENCE SOLUTIONS

SYSTEMIC RISK SOLUTION OF THE YEAR
EUROPEAN RISK MANAGEMENT AWARDS

EQUIPMENT PREDISPOSED

2021 INNOVATION AWARD
BUSINESS INSURANCE

REMOTE SERVICING APP

2021 INSURER INNOVATION OF THE YEAR
INSURANCE TIMES AWARDS

HURRICANE, TYPHOON AND CYCLONE LOSS CONTROL CENTER

2021 RISK MANAGEMENT INNOVATION AWARD
NATIONAL UNDERWRITER PROPERTY CASUALTY 360

2021 OUTSTANDING ACHIEVEMENT AWARD
NATIONAL HURRICANE CONFERENCE

Expense Trends

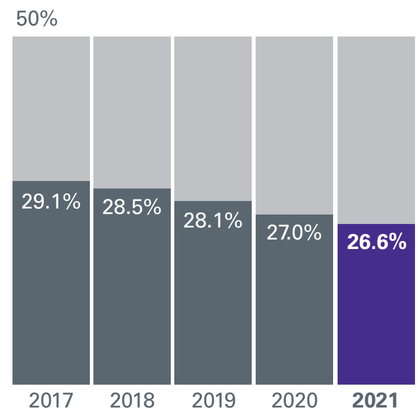
Our 2021 expense ratio was 26.6%, slightly lower than our 2020 result of 27.0%. This metric contributes to our ability to provide the most value to our clients. Throughout the year, we worked to increase operating efficiency through business process improvements, faster product development and flawless product delivery.

Investments

In 2021, we saw another year of solid investment performance despite increased volatility and guidance toward less accommodative monetary conditions. The rally in equity markets continued as investors brushed off several issues throughout the year, while fixed income markets were modestly negative. Our portfolio saw a steady rise as effective vaccines, strong corporate earnings and increased consumer demand sustained the economic expansion in the face of new COVID-19 variants, supply chain challenges and rising inflation.

We continued to benefit from resilient portfolio construction, which provided solid participation in rising markets and capital preservation during more volatile market conditions. Generating optimal risk-adjusted returns remains the primary strategic goal of the investment portfolio, with a focus on resilience, asset quality, portfolio liquidity and risk management as key underlying building blocks. Our prudent investment approach allowed us to maintain strong liquidity for smooth business operations purposes, while tactical portfolio strategy decisions provided consistent absolute and relative excess returns throughout the year despite uncertain market conditions.

EXPENSE RATIO



Overall, our investment portfolio generated strong returns in 2021, with particular strength in equities, private markets, liquid alternatives, opportunistic fixed income and multi-asset investments. Total fixed income returns, however, lagged other primary asset classes driven by persistently high inflation and as the Federal Reserve signaled the end of an ultra-accommodative monetary policy. Cash returns stayed flat as money market yields remained at historically low levels. Effective cash management enabled us to stay optimally invested with minimal cash balances in a rising growth assets market environment. The investment portfolio's results contributed significantly to our surplus growth, complementing overall very favorable insurance business activities for the year.

The investment results demonstrate the resilience of our business model and the consistent focus on the strategic role of the investment portfolio in growing and protecting our surplus. The investment portfolio continues to further strengthen our long-term financial position and leadership in the property insurance business.

Our Leadership and Governance

Our board of directors, advisory boards and risk management executive councils help us set the strategic direction of the company. We thank them for their support and for making the time to partner with us. Their guidance is invaluable, and their insight helps us understand our clients' changing needs. Only through collaboration can we innovate for the benefit of our mutual owners, proving once again why we're better together.

95%

OF POLICIES DELIVERED TO CLIENTS ON OR BEFORE EFFECTIVE DATE

99%

OF POLICIES DELIVERED TO CLIENTS WITHIN 30 DAYS OF INCEPTION

Only through collaboration can we innovate for the benefit of our mutual owners, proving once again why we're better together.

Our Workforce

In 2021, our employees continued to drive results, demonstrating why they are the best in the industry. To thank them, we celebrated our first Global Well-Being Day in May. We closed our offices worldwide for the day to relax and recharge, and we will repeat that practice this year in June and October. The health and well-being of our employees is vital to the resilience of our company. We are committed to making FM Global a great place to work and a home for top talent. This includes the ongoing development of an inclusive workplace and diverse workforce.

Ultimately, we want to ensure all employees have equitable opportunity to develop and succeed. This resolve will also make us a stronger and better organization. Throughout 2021, we implemented key strategies in support of our corporate commitment to diversity, equity and inclusion (DEI). This included the launch of our third business resource group, the Pride Forum; employee training opportunities; and our annual DEI survey, which revealed interest and engagement are high.

CORPORATE GOVERNANCE

FM GLOBAL BOARD OF DIRECTORS

ADVISORY BOARDS

Atlanta/Dallas
Canada
Chicago/St. Louis
Cleveland
Europe
New York
San Francisco
Washington, D.C./Philadelphia

RISK MANAGEMENT EXECUTIVE COUNCILS

Canada
Central
Eastern
EMEA
Western

Our advisory boards and risk management executive councils allow clients to express changing needs directly to us, helping to determine our long-term strategy.

94.6%

AVERAGE EMPLOYEE RETENTION

12.8 YEARS

AVERAGE EMPLOYEE TENURE

Our blueprint for success in 2022 is simple: concentrate on what matters most to our clients, share our financial success with them and deliver as much value as possible.

We established new interview protocols to eliminate unconscious bias in the hiring process and updated all employee competencies to make them more inclusive. We also introduced education about the importance of personal pronouns and invited employees to add theirs to corporate email. While we are proud of our progress in 2021, we recognize these are just the first steps in our journey toward diversity, equity and inclusion.

Like many companies, we also continue to evolve from pandemic response to office reopening, and we are setting the foundation for a purposeful reimagination of how we will work in the future. Much of our focus has been on balancing both continuity of operations and the health, safety and well-being of our workforce. As we transition beyond this response, we recognize the unique opportunity to learn in real time how our workplace and workforce strategies should evolve.

We have started on a strategic initiative to modernize the way we work and to prepare our employees to thrive in an environment informed by the pandemic and shaped by how best to serve the needs of our clients. Our vision for the future will build upon the core values that have led to nearly two centuries of success, embrace flexibility and leverage digitized ways of working to provide enhanced value to our clients, while meeting the diverse needs of our existing and prospective global workforce.

2022 Forecast and Landscape

Given the glimpses of recovery we saw in 2021, we expect rate moderation to continue in 2022, although certain market segments will remain hard. Rising costs due to construction material and labor shortages will continue to increase the severity of claims, both in terms of recovery expenses and prolonged business interruption. To help our clients address ongoing and emerging risk management challenges, our blueprint for success in 2022 is simple: concentrate on what matters most to our clients, share our financial success with them and deliver as much value as possible.

With losses related to climate risk becoming more frequent and severe, we will continue to focus on providing science-based, data-driven property loss prevention solutions to help our clients adapt to climate change, manage related risk and maintain climate resilience—all with an eye on their ESG (environmental, social and governance) commitments. Our goal is to help them implement solutions that are not only sustainable, but resilient. And we will continue to develop our own ESG strategy.

Our journey started by discovering which issues might be most relevant to our clients and colleagues. Now, we are exploring how we can leverage our unique capabilities to make a meaningful and differentiated impact on the environment and society. Later this year, we expect to begin making and sharing commitments in areas that are consistent with our company values, our data-driven approach to risk management and our mutual structure.

In addition, we will expand the focus of our Enterprise Service Delivery initiative to include support of targeted engineering and claims services, and we will continue our digital transformation by positioning our new platform for broader client and partner adoption. We are committed to delivering unique value through this platform and are excited about its inherent potential, such as the ability to better understand exposures, visualize the impact of hazards, and model the results of different risk mitigation solutions.

Also exciting is our work in the area of IoT and other advanced technologies to enhance on-site risk assessments, enable continuous monitoring of ongoing risks through FM Approved loss prevention devices, and provide predictive analytics for equipment risks.

Changes in technology and the risk landscape create new hazards at our clients' organizations. In 2022, we will expand our investment in scientific research and technology to turn emerging challenges into opportunities and ensure our ability to support our clients well into the future.

Risk identification, risk assessment and cost-effective risk improvement are the mainstays of our company. They're how we help our clients protect the value of their organizations. And our business model resonates after more than 185 years because our clients believe in our founding principle—the majority of loss is preventable—and choose resilience. We are deeply grateful to them for their business, their trust and their partnership.

Thank you to our employees, clients, brokers and partners for all we accomplished in 2021. We truly are better together.

T. Lawson

Thomas A. Lawson
Chairman

Malcolm C. Roberts

Malcolm C. Roberts
President and Chief Executive Officer


BETTER TOGETHER.

Better together.

That's a phrase we've heard a lot lately. And it means many things to many people. At FM Global, it means insurance isn't a transaction, it's a partnership. A relationship built on mutual trust and respect. A relationship with our global team, the engine that drives our company, and a relationship with our clients, who share our belief that resilience is a choice. Together, we work to find solutions to their risk management challenges to ensure they're ready when it matters most—whether it's upcycling oil for a cleaner world, keeping water on the shelves during times of disaster or feeding a nation in the midst of a pandemic. Here are a few of their stories.

AVISTA OIL:

PLANET-FRIENDLY INNOVATOR FUELS A CLEANER WORLD

Black smoke billowed into the blue sky above Kalundborg, Denmark, five years ago as an oil processing facility burned to the ground. Such a catastrophe would be painful for any business, but especially one like the plant owner, AVISTA OIL AG, which is dedicated to creating a cleaner world.

An early pioneer in sustainability and the circular economy, AVISTA OIL collects used motor and industrial oil, ensuring sustainable, reliable and environmentally friendly disposal for companies of all industries and sizes. Then, in a patented and almost waste-free process, the Germany-headquartered company re-refines, or upcycles, that oil, which would otherwise be burned or discarded, giving it a second, greener life. The result is 297,624 tons (270,000 metric tons) per year of base oil used to make 250 auto and industrial lubricants—a cycle that reflects the protection and careful use of natural resources. This upcycling eliminates the need to refine millions of tons of crude and generates 30% less CO_2 than conventional refining.

"At first glance, used oil seems worthless, a hazardous waste," says AVISTA OIL CFO Benedikt Fuhlrott. "But when you look deeper, you understand it is a fantastic resource and raw material. We have only one planet, and it's ridiculous to burn used oil when you can give it another functional, cleaner life."

Fire devastates key production facility

The 2017 Kalundborg fire halted AVISTA OIL's Denmark operations, costing the company 25% of its production capacity for three years, while demand for its products was rising. That forced customers and manufacturing partners to turn to AVISTA OIL competitors for their upcycled oil. It also destabilized the company's multivendor insurance program by prompting a few carriers to walk away.

When the catastrophe struck, the company had already been working to improve its loss prevention strategy. The fire affirmed their plan to cultivate deeper resilience in Kalundborg and its other facilities. It also made clear the need for a trusted partner, one with deep expertise and commitment.

COMPANY
AVISTA OIL

INDUSTRY
Upcycling

LOCATION
Europe and United States

SIZE
- 750+ employees
- 3 refineries
- 6 disposal companies

VALUED CLIENT SINCE...
2019

DELIVERY
Brokered

CHALLENGES
- Business continuity
- Lack of marketplace interest

SOLUTIONS
- Stable, 100% capacity
- Engineering-based risk improvement program:
  - Automatic sprinkler protection
  - Solid floors retrofit
  - Fire-retardant wall panels

IMPACT
AVISTA OIL customers will always have access to an important renewable resource

> We have only one planet, and it's ridiculous to burn used oil when you can give it another functional, cleaner life.

BENEDIKT FUHLROTT
CFO, AVISTA OIL

Better together: partners reinforce facilities for long-term resilience

FM Global offered a single solution to the company's multiple challenges, providing full, one-source coverage and an engineering-based risk improvement program that aligned with AVISTA OIL's evolving philosophy of resilience.

"FM Global takes a bold stance," says Benedikt. "Their engineers use a uniquely sophisticated due-diligence approach to loss prevention that is impressive and entrepreneurial. It was obvious their team believes wholeheartedly in what they're doing, and we see a lot of value in that. We were confident in our decision to proceed."

AVISTA OIL signed with FM Global in 2019 for its Denmark facility and its Uetze, Germany, headquarters, and in 2020 for its Peachtree City, Georgia, USA, facility. The company is following through on its commitment to make its Kalundborg location a *highly protected risk*, FM Global's highest resilience designation, and plans to do the same in Germany and the U.S.

Says Benedikt, "Becoming a highly protected risk strengthens our business continuity and helps us manage our premiums in the long run."

During reconstruction of the Kalundborg facility, AVISTA OIL made a variety of risk improvements recommended by FM Global, including:

- Installing automatic sprinkler protection
- Installing larger water tanks and diesel-powered fire pumps
- Retrofitting solid floors to prevent 3D, multilevel fire
- Replacing combustible wall panels with fire-retardant ones

Although this work consumed extra time and changed the facility layout, AVISTA OIL is convinced that difficult choices will pay off in long-term resilience. The company also installed automatic sprinkler protection at its Germany facility and will enhance the existing automatic sprinkler protection at its U.S. facility.

AVISTA OIL's plant engineers have formed a collaborative partnership with FM Global's fire science experts and field engineers to advance improvements like these. Both teams recognize the value of risk improvement in protecting the business from the far-reaching financial loss that can result from a business disruption.

"Our employees are the best in the world, yet all of us can benefit from having a mirror held up to our activity so we can see it with fresh eyes," says Benedikt. "That's what FM Global does. By working together, we can ensure that our customers always have access to an important renewable resource—and that another Kalundborg catastrophe never happens again."

PARTNERS IN RESILIENCE

When a fire at AVISTA OIL's Kalundborg, Denmark, facility wiped out 25% of its production capacity for three years, the company turned to FM Global to help ensure its customers always have access to a renewable resource. Although work consumed extra time and changed the facility layout, the company made a variety of risk improvements during reconstruction and is committed to becoming a highly protected risk, FM Global's highest resilience designation.

DID YOU KNOW…

HPR means resilience and value.

When AVISTA OIL says it's committed to making its oil-upcycling facilities highly protected risks, that means something.

Highly protected risk (HPR) property is judged to be less prone to loss than normal by virtue of factors like superior construction, special fire protection equipment and procedures, and management commitment to loss prevention, according to the International Risk Management Institute.

A study by Oxford Metrica found that companies adopting HPR thinking and practicing enterprise risk management experience fewer losses, lower cash flow volatility, and more consistent and stable shareholder value.

HPR is FM Global's highest resilience designation and is the heart of our service model. For clients like AVISTA OIL, HPR status means peace of mind, business continuity, and the power to command the best insurance coverage at the best terms.

COCA-COLA CONSOLIDATED:

REFRESHING THE WORLD, IN GOOD WEATHER AND BAD

It was Donnie Etheridge's first flash flood:

"To see how quickly it devastated the plant was ... awe-inspiring. Water flowed through a major building like it wasn't even there. I'll never forget seeing our equipment floating down a river that two days earlier didn't exist."

It was May 2010 and the culmination of heavy rainfall on back-to-back days dumped a record-breaking 13.57 inches (34.5 centimeters) of rain on Nashville, Tennessee, USA. The deluge turned a nearby creek into a raging river that swamped Coca-Cola Consolidated's local plant—a key facility for the nation's largest Coca-Cola bottler. The flood shuttered the plant for three weeks, destroying electrical systems, compressors, and hundreds of motors as large as 150 horsepower. It was a US$7 million loss.

"When we're not manufacturing Coca-Cola products, we're not selling them," notes Donnie, executive vice president of product supply. "So, it's critical for our business to be up and running."

Coca-Cola Consolidated is the United States' largest Coca-Cola bottler, packaging 315 million cases of Coca-Cola and 300 other brands and flavors at 11 manufacturing facilities. The company ships these goods from 60 distribution and sales centers across 14 states and Washington, D.C., ultimately reaching 60 million consumers.

It's not just sales that are lost in a disruption. At risk is bottled water for first responders or anyone whose drinking water source is disrupted by floodwaters. Potable water becomes scarce when disaster strikes. Even in a flash flood when water is everywhere, tap water is often contaminated.

To help minimize future damage caused by flooding, Coca-Cola Consolidated and engineers from FM Global pored over options. Relocation would be too expensive. Dredging and berms could violate local laws. There was only one solution: work *with* nature, not against it. FM Global proposed that Coca-Cola Consolidated allow floodwaters to flow *through* the plant by creating a safe path with floodwalls and gates, like a culvert under your driveway.

"FM Global's approach was to protect the critical equipment so when something did happen, we would be able to recover much quicker," says Mark Byers, vice president of risk management. "As we would see, it worked. Due to FM Global's recommendations, we're much better prepared to handle flood and other risks than we were 10 years ago."

COMPANY
Coca-Cola Consolidated

INDUSTRY
Coca-Cola Consolidated distributes, markets and manufactures nonalcoholic beverages

LOCATION
United States

SIZE
- 16,000 employees
- 11 production centers
- 60 distribution and sales centers

VALUED CLIENT SINCE...
2016

DELIVERY
Direct

CHALLENGES
- Flood, fire, hurricane, earthquake and cyber risks
- ESG commitments

SOLUTIONS
- FM Approved flood doors
- FM Approved flood planks
- Engineered floodwalls
- Concrete floors and tile walls
- Business continuity planning

IMPACT
Products will be on the store shelf whenever consumers need them

With FM Global, we have an excellent relationship around engineering, underwriting, claims, and overall risk management. It's important for our whole company, and for the 60 million consumers who expect Coke to be on the store shelf whenever they need it.

MARK BYERS

VICE PRESIDENT OF RISK MANAGEMENT,
COCA-COLA CONSOLIDATED

Second storm puts resilience to the test

The validation came on a Saturday night in March 2021, when Nashville experienced another historic deluge, its fourth-heaviest rainfall on record. The water level in Browns Creek rose fast, causing Coca-Cola Consolidated's plant personnel to rush to install the flood barriers. By midnight, the creek had risen to 10.5 feet (3.2 meters), well over dangerous flood levels.

But by Sunday morning, the waters had receded and workers could enter the plant. "I was expecting carnage," says Ryan Edixon, safety loss prevention manager, "but I opened the front door, and to my surprise everything was dry. The main manufacturing area looked like a bit of water had just come in and left. It was beautiful."

After minimal cleanup, the plant was open for business. "We had a similar event at the same facility adjacent to the same creek with a much different outcome," says Mark. "Instead of US$7 million, the loss was minimal. The flood barriers we installed worked as designed. We were up and running in a couple of days."

Says Donnie, "I wasn't really surprised our plan worked well; I was *delighted* it worked well."

Preparation is key to enduring sustainability

Coca-Cola Consolidated relies on FM Global for risk improvement at all of its properties for flood, fire, hurricanes, earthquakes and cyber attacks. An FM Global business impact analysis informs the bottler's new business continuity plan. There is a detailed contingency plan for disruption of any important business function, including manufacturing, procurement, warehousing and distribution.

And FM Global supports the company's sustainability efforts, including continuously improving water use efficiency, conserving energy and producing packaging that's made to be remade. "We're really trying to eliminate waste altogether," says Doug Leonard, director of environmental affairs. "FM Global is standing side by side with us to make sure the programs we're implementing are reducing our property risk."

Coca-Cola Consolidated has become a pillar of resilience in good weather and bad, in Nashville and beyond. "For us, insurance is not a commodity, it's a valued relationship," says Mark. "With FM Global, we have an excellent relationship around engineering, underwriting, claims, and overall risk management. It's important for our whole company, and for the 60 million consumers who expect Coke to be on the store shelf whenever they need it."

FIGHTING FLOOD

Flood is one of the costliest climate risks in the world, yet most flood loss is both predictable and preventable. To help mitigate the risk at its Nashville, Tennessee, USA, bottling facility, Coca-Cola Consolidated employs a variety of permanent and temporary protection measures, like flood planks, which can be easily installed prior to flooding.

DID YOU KNOW...

There are only three ways to protect against flood damage, but there are a variety of methods that can be used in your protection scheme:

1 ELEVATE ABOVE FLOOD LEVEL

- Build on high ground
- Elevate key equipment (e.g., electrical switchgear, motors, computer servers)
- Elevate key storage

2 KEEP THE WATER OUT

- Install an FM Approved perimeter barrier
- Use FM Approved opening barriers combined with waterproof walls
- Construct engineered floodwalls

3 MAKE IT WATERPROOF

- Employ waterproof floors (e.g., concrete instead of carpet)
- Install waterproof walls (e.g., ceramic tile, brick or concrete block instead of gypsum board)

Coca-Cola Consolidated used several methods to reduce their flood risk:

- ✓ FM Approved flood doors
- ✓ FM Approved flood planks
- ✓ Engineered floodwalls
- ✓ Concrete floors and tile walls

For more information, see the following resources available from fmglobal.com:
NatHaz Toolkit; FM Global Property Loss Prevention Data Sheet 1-40, *Flood*; and the *Approval Guide*.

PREMIER FOODS:

UK COMPANY FEEDS A NATION

The COVID-19 pandemic has rekindled our love for dining at home.

Amateur chefs are unearthing family recipes, experimenting with different cuisines, and making their dining rooms feel like cozy restaurants.

For Premier Foods, one of the United Kingdom's largest food manufacturers, when consumers retreated to their homes, it fueled continuous, holiday-level demand for beloved products like its famous OXO stock cubes and Mr Kipling cakes. Five of the company's nine U.K. factories ramped up to everyday, around-the-clock operation, including hiring workers that nonessential industries had furloughed. In addition to protecting these workers, the company's mission was no less than feeding the nation. Its products are in 96% of U.K. homes.

Although peak demand is great for business, it strains operations. The need for resilience led to a new relationship with FM Global.

Nine factories, 13 brands, no margin for error

Premier Foods' biggest concern during the pandemic was the safety of all its colleagues. Its second priority was to feed the nation, and the resultant increase in demand highlighted the concern of a lack of redundancy.

Since each factory has many unique capabilities dedicated to specific Premier Foods brands, it would have been a crisis if any one of the factories suffered a major fire, storm or cyber attack. The impact of events like these could potentially harm the company's market share and reputation.

In the first half of 2020, as Premier's long-term insurance contract with multiple carriers wound down, the company was eager for a change, looking to improve its risk quality, contain cost of risk, and try a new kind of insurer. They got one.

"FM Global doesn't just say, 'here's the standard,' and hand you a checklist of recommended changes," says Operations Director Paul Thompson. "They go beyond the *what* and explain *why* you should make a specific improvement and *how*, and then they support you as you do it. Their recommendations are *actionable*. That approach is good for us, our shareholders, FM Global, and FM Global's client/owners, of which we are now one."

COMPANY
Premier Foods

INDUSTRY
Food and beverage

LOCATION
United Kingdom

SIZE
- 4,000+ employees
- 9 factories

VALUED CLIENT SINCE...
2020

DELIVERY
Direct

CHALLENGES
- Fire, storm and cyber risks
- Business continuity
- Managing risk/ controlling losses

SOLUTIONS
- Actionable risk improvement recommendations
  - » Flood barriers
  - » Improved fire protection
- Collaboration
- Emergency response planning
- FM Global Resilience Index

IMPACT
Pantries across the U.K. will be stocked with cherished Premier Foods brands

> FM Global quantified the risk and gave us a choice of whether to mitigate the risk or not. We enthusiastically executed the plan.

RACHEL MATHESON

FACTORY GENERAL MANAGER, LIFTON, PREMIER FOODS

Improving resilience across the group

Collaboration around insurance has demonstrably improved with FM Global. A case in point is the company's Lifton dairy facility, located in a floodplain in Devon, England. Paul worried that FM Global's recommendations might cost a fortune, like a tall, permanent dam around the entire facility. Instead, engineers recommended what Paul calls "pragmatic and targeted protection"—adding rapid-deployment flood barriers and devising a rigorous emergency response plan. FM Global engineers backed up that recommendation with in-depth data, local information and predictive models.

"The collaboration and high-level communication we get makes a big difference to me," says Rachel Matheson, Premier Foods factory general manager at Lifton. "Even though the site hadn't experienced a flood, the data suggested the risk existed. FM Global quantified the risk and gave us a choice of whether to mitigate the risk or not. We enthusiastically executed the plan."

Premier Foods is committed to making Lifton and all of its manufacturing properties *highly protected risks,* FM Global's highest risk quality designation, which helps the company protect its brands and contain insurance costs. Premier worked with FM Global to craft a three-year, £10 million capital improvement plan linked to priorities across the nine U.K. plants. "It's not just about the capital investment, though," says Group Engineering Director Edward Robinson. "It's making sure the capital works the *day you need it.*"

Initiatives include:

- Improving fire protection across the board
- Addressing cyber risks related to factory digitization
- Quantifying climate-related financial risks to support new reporting regulations
- Integrating FM Global Resilience Index data into its supply chain mapping software

RESILIENCE REQUIRED

With nine factories, each with many unique capabilities dedicated to specific Premier Foods brands, resilience isn't a choice but a necessity for Premier Foods, one of the U.K.'s largest food manufacturers. Its products can be found in 96% of U.K. homes.

Client gains control over cost of risk

These initiatives have emerged from the companies' direct one-to-one insurer-client relationship. This framework provides new simplicity, transparency, accountability and control over the company's cost of risk. Risk improvement is rewarded, and the teams speak candidly with one another from the site to the executive level. It makes for a solid partnership.

"Whether we're dealing with insurance partners, suppliers or customers, we're not all about the lowest cost of every opportunity," says Gareth Pullan, head of procurement, corporate services and procurement governance. "We really focus on value, and we believe the best way to get that value is to have more meaningful relationships with fewer partners. This gives us the best return, not only for ourselves, but the other parties we work with."

These parties include Premier Foods customers, partners, shareholders, employees—and, first and foremost, its consumers. Consumers depend on the company's resilience to keep their pantries stocked with cherished Premier Foods brands as they experiment with their next delicious meal, wherever they're enjoying it. And for the past two years, that's usually been at home.

DEFINITIVE DATA TO STEER GLOBAL GROWTH

U.K. consumers love Premier Foods brands—they're in nearly every household—and the company has started bringing its beloved products to the rest of the planet.

As the company grows, where in the world should it source new ingredients, build new plants, and site new distribution hubs? Data is critical to getting these decisions right and keeping Premier Foods resilient.

That's why the company recently integrated extensive information on the economies, risks, and supply chain qualities of 130 countries and territories into its supply chain mapping platform. This data is piped from the FM Global Resilience Index, which is the definitive annual ranking of countries and territories by the resilience of their business environments. The publicly available resource is designed to help business leaders develop a detailed story about the risks their companies may face in different regions so they can make informed strategic decisions on where to do business.

FM GLOBAL AROUND THE WORLD

FM Global products and services are available around the world. The countries listed below represent those where we can provide legal admitted coverage via a combination of licenses and a partner network.

AMERICAS

Anguilla
Antigua and Barbuda
Argentina
Aruba
Bahamas
Barbados
Belize
Bolivia
Bonaire, St. Eustatius and Saba
Brazil
Canada
Cayman Islands
Chile
Colombia
Costa Rica
Curaçao
Dominica
Dominican Republic
Ecuador
El Salvador
French Guiana
Grenada
Guadeloupe
Guatemala
Guyana
Honduras
Jamaica
Martinique
Mexico
Montserrat
Nicaragua
Panama
Paraguay
Peru
St. Kitts and Nevis
St. Lucia
St. Maarten
St. Vincent and the Grenadines
Trinidad and Tobago
Turks and Caicos Islands
United States
Uruguay
Venezuela
Virgin Islands (British)

EUROPE, MIDDLE EAST AND AFRICA

Albania
Algeria
Angola
Armenia
Austria
Azerbaijan
Bahrain
Belgium
Bosnia and Herzegovina
Botswana
Bulgaria
Burkina Faso
Cameroon
Cote d'Ivoire (Ivory Coast)
Croatia
Cyprus
Czech Republic
Denmark
Egypt
Estonia
Finland
France
Gabon
Georgia
Germany
Ghana
Greece
Hungary
Iceland
Ireland
Isle of Man
Israel
Italy
Jordan
Kazakhstan
Kenya
Kuwait
Kyrgyzstan
Latvia
Lebanon
Liechtenstein
Lithuania
Luxembourg
Madagascar
Malawi
Mali
Malta
Montenegro
Morocco
Mozambique
Namibia
Netherlands
North Macedonia
Norway
Oman
Poland
Portugal
Qatar
Republic of the Congo
Romania
Russia
Saudi Arabia
Senegal
Serbia
Slovakia
Slovenia
South Africa
Spain
Sweden
Switzerland
Tanzania
Tunisia
Turkey
Ukraine
United Arab Emirates
United Kingdom
Zambia
Zimbabwe

ASIA/PACIFIC

Australia
Bangladesh
Brunei
Cambodia
China
French Polynesia
Hong Kong
India
Indonesia
Japan
Laos
Macau
Malaysia
Mongolia
New Zealand
Pakistan
Philippines
Reunion
Singapore
South Korea
Sri Lanka
Taiwan
Thailand
Vietnam

In addition to its large-risk property insurance line of business, the FM Global Group comprises a number of other key business operations. Several of those are described in this section.

FM Global

AFM® Member of the FM Global Group

FM Global Cargo

Corporate Insurance Services Member of the FM Global Group

Emergency Response Consultants℠ Member of the FM Global Group

FM Approvals® Member of the FM Global Group

Mutual Boiler Re® Member of the FM Global Group

AFM specializes in commercial property insurance for the middle market. AFM provides tailored underwriting expertise and property loss control engineering through a select international network of broker partners. The organization has office locations in Australia, Canada, France, Germany, the Netherlands, Spain, the United Kingdom and throughout the United States, and provides coverage in more than 90 countries.

FM Global Cargo provides cargo insurance coverage, automated certificate issuance and risk engineering services tailored to the international trade and transportation needs of FM Global and AFM clients.

Corporate Insurance Services (CIS) is FM Global's wholly owned brokerage operation, maintaining relationships with a variety of U.S. domestic insurers, Lloyd's of London, excess and surplus lines insurers and specialty companies.

FM Global Emergency Response Consultants is an emergency services training organization providing comprehensive training for emergency response personnel and those responsible for organizing, managing and/or directing emergency response activities.

FM Approvals is an international leader in third-party testing and certification services for property loss prevention products used in commercial and industrial facilities. The FM APPROVED certification mark is globally recognized by regulators and end users and backed by scientific research. FM Approvals certifies products that make businesses more resilient by meeting rigorous standards of quality, technical integrity and performance.

Mutual Boiler Re provides boiler and machinery insurance in North America, specializing in mechanical, electrical and pressure systems breakdown treaty reinsurance and support services to the commercial property insurance marketplace. Today, it works with nearly 300 insurance companies, providing coverage to their policyholders.


RESILIENCE IS A CHOICE.

The table on page 30 provides a summary of FM Global's investment portfolio as of the end of 2021, including asset allocations and net asset values.

2021 was a year of recovery and growth for economic markets, with global GDP surpassing its pre-pandemic peak. While the impacts of COVID-19 dominated headlines, labor shortages, supply chain issues, and rising inflation were felt throughout the year. Nonetheless, investors brushed off these concerns, as equity markets reached new highs with regularity despite elevated volatility. The hope of a return to normalcy on the back of an effective vaccine program started to fade into the second half of the year with the discovery of more transmissible variants, although potentially improving the odds for a progression toward a seasonal endemic outcome.

FM Global produced another year of solid investment performance as a result of our resilient portfolio construction, long-term strategic asset allocation framework, and tactical investment decision-making. Diversification within our portfolio strategy allowed us to weather the periods of increased volatility, while still generating excellent returns on an absolute and relative basis. In addition, we made tactical allocation decisions during the year to capitalize on short-term differences in asset class return expectations, with focus on optimal risk-adjusted returns, resilience, asset quality, portfolio liquidity, capital preservation, and risk management.

The financial market environment in 2021 remained volatile, although with somewhat reduced uncertainty versus 2020, as investors acclimated to the second year of the COVID-19 pandemic. The year can be broadly characterized by strong stock markets, persistently high inflation, reduced Federal Reserve monetary accommodation, increasing Chinese regulatory scrutiny, and brewing geopolitical tensions. The equity markets started strong during the first half of the year, as global markets reopened on the back of effective vaccine program rollouts. However, markets declined across the board in the third quarter against the backdrop of falling growth expectations, building inflationary pressures, a more hawkish Federal Reserve, and China's regulatory tightening on technology and property sectors. The emergence of the highly infectious omicron variant led to a spike in equity market volatility at the end of November, but markets quickly settled as data from South Africa and the U.K. indicated a lower risk of severe disease. Headwinds remained for some markets, such as fixed income and emerging markets, which continued to decline in the fourth quarter and ended the year with a negative return. Developed markets, particularly U.S. large cap companies, fared better, rebounding strongly and ending the year with record high returns. Heading into 2022, there are reasons to be cautious: omicron or another variant slowing down market normalcy, global fiscal and monetary policy uncertainties, and continued geopolitical tensions. There are also reasons to be optimistic: an improving global supply chain, continued innovation on COVID-19 therapeutics, and economic reopening, which should support strong corporate earnings.

Overall, our investment portfolio generated strong returns in 2021, with particular strength in U.S. and international equities, private markets, and liquid alternatives. Overall, fixed income lagged other primary asset classes, as the yield curve flattened, driven by persistently high inflation and an increasingly hawkish Federal Reserve signaling the end of an ultra-accommodative monetary policy. Cash returns stayed flat as money market yields remain at historically low levels. Effective cash management enabled us to stay optimally invested with minimal cash balances in a rising growth assets market environment. Asset allocation and investments selection continued to play an important role in the performance of the investment portfolio. Our long-term focus on generating an optimal risk-adjusted return allowed FM Global to take advantage of the market's performance in 2021 and make tactical asset allocation decisions, as necessary, given changing market conditions. It also enabled FM Global to invest in longer-horizon strategic alternative investments where we see value in less liquid opportunities. This portfolio construction strategy generated a strong annual return for the investment portfolio in 2021 and continues to build a strong base for long-term investments, increasing the probability of stable returns in future years.

FM Global's equity allocations were slightly higher at year-end 2021 compared to year-end 2020, with the strategic overweight resulting from our views on the most efficient, risk-adjusted use of capital. Total fixed income allocations were reduced during the year as we believed there was a limited opportunity set for core fixed income in the current inflation, rates, and spread environment. We made additional investments in the opportunistic fixed income bucket, which delivered attractive and differentiated returns in an otherwise flat fixed income market. The opportunistic fixed income allocation now represents over 5% of total invested assets and includes direct investments, fund commitments, and dislocation strategies.

The alternative assets portfolio construction remains on track, with continued build-out of the private market portfolio through selective commitments to high conviction strategies and optimizing efforts within the absolute return allocation. For 2021, private markets provided outsized gains as valuations reflected strong earnings growth, record deal activity, and increasing deal pricing. Absolute return strategies rallied in the first half of the year on reflation and growth trades before interest rate concerns muted an otherwise strong year of performance. The portfolio benefited from exposure to strategies that were able to tactically pivot exposures throughout the year through risk management.

The short-term cash and money market investment allocations were maintained close to target throughout the year with selective draws for marginal rebalancing. The multi-asset bucket, which includes tail risk and liquidity strategies in addition to dynamic asset allocation strategies, continues to be additive by providing a capital efficient solution for obtaining incremental yield in a prudent manner. There was constant focus on generating optimal returns within the cash, short-term, and multi-asset buckets while maintaining adequate liquidity as necessary for effective business operations.

In summary, the investment portfolio asset allocation ended 2021 with an overweight to global equities and alternatives and an underweight to fixed income and multi-assets, with further increases in net asset values of diversifying strategies and private alternatives funds. The portfolio delivered another year of strong absolute and relative performance despite increased volatility and uncertainty. In particular, the portfolio benefited from our strategic and tactical asset allocation decisions, as well as an effective cash management strategy, which kept the portfolio fully invested during a robust year of returns. These results contributed significantly to our surplus growth, complementing overall very favorable insurance business activities for the year.

At the total portfolio level, there is continued focus on long-term strategic portfolio construction, asset allocation, and risk management as markets experience volatility from the ongoing pandemic and its market impacts. The primary strategic goal for investments continues to be generating optimal risk-adjusted returns for FM Global's investment portfolio and maintaining the high quality and liquid characteristics of the portfolio, while prudently managing downside risks and maintaining strong liquidity for business cash flow requirements, as necessary. This investment approach enables FM Global to preserve and grow surplus over the long term. FM Global Investments continues to play a key role in building FM Global's financial position and leadership in the property insurance business.

Real Estate

Hobbs Brook Real Estate ("HBRE") invests in and manages real estate assets on behalf of FM Global throughout the United States. In addition, HBRE provides functional support to FM Global's business operations globally. The investment and management of commercial assets provides an additional element of portfolio diversification for FM Global; it also provides a cost-effective approach in meeting FM Global's ongoing real estate needs. In 2021, HBRE managed 3.4 million ft^2 (316,000 m^2) of commercial properties, which produced $115.6 million† in total revenue and $38.3 million† in cash flow.

Pretax Contribution to Surplus (in millions) †	2021	2020
Investment income	$ 358	$ 358
Realized gains	1,576	1,153
Unrealized gains	396	560
Total	$ 2,330	$ 2,071

As of Dec. 31, Holdings (in millions) †	2021 Total	2021 Percentage	2020 Total	2020 Percentage
Equities:				
Equity securities	$ 10,894		$ 8,807	
Other – equity funds	487		461	
Total equities	$ 11,381	46.7%	$ 9,268	43.6%
Debt securities:				
Taxable debt securities	$ 7,483		$ 7,158	
Municipal debt securities	1,665		1,651	
Total debt securities	$ 9,148	37.5%	$ 8,809	41.4%
Other – alternative investments:				
Private equity	$ 1 ,027		$ 591	
Hedge funds	879		845	
Other alternative investments	104		45	
Total other – alternative investments	$ 2,010	8.2%	$ 1,481	7.0%
Short-term funds and cash	1,840	7.6%	1,707	8.0%
Total	$ 24,379	100.0%	$ 21,265	100.0%

† All financial values in U.S. dollars.

The management of FM Global is responsible for establishing and maintaining adequate internal control over financial reporting and for the preparation and integrity of the accompanying financial statements and other related information in this report. The consolidated financial statements of the Company and its subsidiaries, including the notes to consolidated financial statements, were prepared in accordance with U.S. generally accepted accounting principles and include judgments and estimates, which, in the opinion of management, are applied on an appropriate basis. The Company maintains a system of internal and disclosure controls intended to provide reasonable assurance that assets are safeguarded from loss or material misuse, that transactions are authorized and recorded properly, and that the accounting records may be relied upon for the preparation of the financial statements. This system is tested and evaluated regularly for adherence and effectiveness by the Company's staff of internal auditors.

The audit committee of the Board of Directors, which comprises directors who are not employees of the Company, meets regularly with management and the internal auditors to review the Company's financial policies and procedures, its internal control structure, the objectivity of its financial reporting and the independence of the Company's independent public accounting firm. The internal auditors have free and direct access to the audit committee, and they meet periodically, without management present, to discuss appropriate matters.

Because of inherent limitations, a system of internal control over financial reporting may not prevent or detect misstatements and even when determined to be effective, can only provide reasonable assurance with respect to financial statement preparation and presentation. Projections of any evaluation of effectiveness to future periods are also subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

These consolidated financial statements are subject to an evaluation of internal control over financial reporting conducted under the supervision and with the participation of management, including the chief executive officer and chief financial officer. Based on that evaluation, conducted under the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, management concluded that its internal control over financial reporting was effective as of December 31, 2021 and December 31, 2020.

Malcolm C. Roberts

Malcolm C. Roberts
President and Chief Executive Officer

K. S. Ingram

Kevin S. Ingram
Senior Executive Vice President
and Chief Financial Officer

The Board of Directors and Policyholders of Factory Mutual Insurance Company and Subsidiaries

We have audited the accompanying consolidated financial statements of Factory Mutual Insurance Company and Subsidiaries (the Company), which comprise the consolidated balance sheets as of December 31, 2021 and 2020, and the related consolidated statements of income, comprehensive income, changes in policyholders' surplus and cash flows for the years then ended, and the related notes (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Company at December 31, 2021 and 2020, and the consolidated results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements, as a whole are free of material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2015-09, *Financial Services—Insurance (Topic 944): Disclosures about Short-Duration Contracts*, requires that the short-duration insurance contract disclosures for years prior to 2021 presented in Note 5 be presented to supplement the financial statements. Such information is the responsibility of management and, although not a part of the financial statements, is required by the FASB, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Boston, Massachusetts
March 10, 2022

Ernst & Young LLP

CONSOLIDATED BALANCE SHEETS

(in thousands)

Dec. 31,	2021	2020
Assets		
Investments:		
Debt securities	$ 9,147,800	$ 8,808,800
Equity securities	10,893,700	8,807,300
Other securities	2,497,000	1,941,900
Real estate	982,400	858,600
Total investments	23,520,900	20,416,600
Cash and cash equivalents	1,839,900	1,707,200
Recoverable from reinsurers	3,077,400	2,481,400
Premium receivable	1,406,100	1,338,500
Prepaid reinsurance premium	362,900	371,000
Premises and equipment	535,500	540,000
Other assets	1,417,800	1,121,000
Total assets	$ 32,160,500	$ 27,975,700
Liabilities		
Unpaid losses and loss adjustment expenses	$ 7,064,200	$ 5,705,000
Reserve for unearned premium	3,762,100	3,436,700
Current and deferred income taxes	632,200	947,900
Other liabilities	1,332,900	1,391,800
Total liabilities	12,791,400	11,481,400
Policyholders' Surplus		
Accumulated other comprehensive loss	(541,700)	(574,100)
Retained earnings	19,910,800	17,068,400
Total policyholders' surplus	19,369,100	16,494,300
Total liabilities and policyholders' surplus	$ 32,160,500	$ 27,975,700

See accompanying notes.

CONSOLIDATED STATEMENTS OF INCOME

(in thousands)

Year ended Dec. 31,	2021	2020
Gross premium earned	$ 7,601,000	$ 6,768,400
Ceded premium earned	(2,096,700)	(2,062,000)
Net premium earned	5,504,300	4,706,400
Investment-related income	482,000	484,700
Fee-related income	78,800	71,200
Total revenue	6,065,100	5,262,300
Net losses and loss adjustment expenses	3,111,100	3,080,900
Insurance-related expenses	1,411,900	1,240,300
Investment-related expenses	203,500	258,700
Fee-related expenses	65,500	56,900
Total losses, loss adjustment and other expenses	4,792,000	4,636,800
Income from operations	1,273,100	625,500
Net realized investment gains	1,576,400	1,153,000
Net unrealized investment gains on equity securities	633,100	382,700
Income before income taxes	3,482,600	2,161,200
Income tax expense	640,200	429,300
Net income	$ 2,842,400	$ 1,731,900

See accompanying notes.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

Year ended Dec. 31,	2021	2020
Net income	$ 2,842,400	$ 1,731,900
Other comprehensive income		
Change in net unrealized appreciation on investments in debt securities (available for sale), net of income tax benefit of $49,300 in 2021 and income tax expense of $36,400 in 2020	(188,300)	140,700
Change in benefit plan assets and liabilities, net of income tax expense of $78,400 in 2021 and income tax benefit of $25,900 in 2020	296,700	(94,200)
Foreign currency translation adjustment, net of income tax benefit of $3,100 in 2021 and income tax expense of $9,900 in 2020	(76,000)	133,200
Other comprehensive income	32,400	179,700
Comprehensive income	$ 2,874,800	$ 1,911,600

CONSOLIDATED STATEMENTS OF CHANGES IN POLICYHOLDERS' SURPLUS

(in thousands)

Year ended Dec. 31,	2021	2020
Retained earnings at beginning of year	$ 17,068,400	$ 15,336,500
Net income	2,842,400	1,731,900
Retained earnings at end of year	19,910,800	17,068,400
Accumulated other comprehensive loss at beginning of year	(574,100)	(753,800)
Other comprehensive income	32,400	179,700
Accumulated other comprehensive loss at end of year	(541,700)	(574,100)
Policyholders' surplus at end of year	$ 19,369,100	$ 16,494,300

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

Year ended Dec. 31,	2021	2020
Operating activities		
Net income	$ 2,842,400	$ 1,731,900
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	104,800	94,900
Increase in premium receivable	(67,600)	(192,000)
Increase in unpaid losses and loss adjustment expenses	1,359,200	196,800
Increase in reserve for unearned premium	325,400	480,800
Increase in recoverable from reinsurers	(596,000)	(455,700)
(Decrease) / increase in current and deferred income taxes	(290,200)	181,100
Net realized investment gains	(1,576,400)	(1,153,000)
Net unrealized investment gains on equity securities	(633,100)	(382,700)
Decrease / (increase) in prepaid reinsurance premium	8,100	(42,100)
Other	(5,600)	321,700
Net cash provided by operating activities	1,471,000	781,700
Investing activities		
Net sales / (purchases) of short-term investments	6,600	(6,800)
Purchases of debt, equity and other securities	(11,809,600)	(9,019,000)
Sales and maturities of debt, equity and other securities	10,678,000	8,196,100
Capital expenditures	(243,500)	(214,900)
Other	30,200	10,900
Net cash used by investing activities	(1,338,300)	(1,033,700)
Increase / (decrease) in cash and cash equivalents	132,700	(252,000)
Cash and cash equivalents at beginning of year	1,707,200	1,959,200
Cash and cash equivalents at end of year	$ 1,839,900	$ 1,707,200

See accompanying notes.

Note 1. Significant Accounting Policies

Basis of Presentation

The consolidated financial statements are stated in U.S. dollars and have been prepared on the basis of U.S. generally accepted accounting principles, which differ in some respects from statutory accounting practices prescribed or permitted by the State of Rhode Island, Department of Business Regulation, Insurance Division. On the basis of statutory accounting practices, consolidated policyholders' surplus was $17,858,300 and $15,358,700 at December 31, 2021 and 2020, respectively; net income for the respective years then ended was $1,542,200 and $1,109,800.

The process of preparing financial statements in conformity with U.S. generally accepted accounting principles requires the use of management's estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

The Company provides comprehensive lines of property coverage and supporting services for industrial and institutional properties throughout the world.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany accounts and transactions were eliminated in consolidation.

Cash Equivalents

Cash equivalents are short-term, highly liquid investments that are both readily convertible into known amounts of cash and so near to maturity that they present insignificant risk of changes in value due to changing interest rates. Cash equivalents include money market funds carried at fair value and debt securities purchased with maturities of three months or less at acquisition and are carried at amortized cost, which approximates fair value.

Investments

Equity securities are carried at fair value, with the unrealized appreciation or depreciation reported in the Consolidated Statements of Income.

Debt securities are classified as available-for-sale and are stated at fair value, with the unrealized appreciation or depreciation, net of tax, reported directly in other comprehensive income. The cost of securities sold is based upon the specific identification method.

The amortized cost of debt securities is adjusted for amortization of premium and accretion of discounts to maturity, or in the case of mortgage and asset-backed securities, over the estimated life of the security adjusted for anticipated prepayments. This amortization and accretion is included in investment-related income. For mortgage and asset-backed debt securities, the Company recognizes income using a constant effective yield based on anticipated prepayments over the economic life of the security. The mortgage and asset-backed debt securities are accounted for under the retrospective method and prepayment assumptions are based on market expectations. When actual prepayments differ significantly from anticipated prepayments, the effective yield is recalculated to reflect actual payments to date and anticipated future payments, and any resulting adjustment is included in investment-related income.

Note 1. Significant Accounting Policies *(continued)*

Other securities consist of partnerships, hedge funds, equity funds and other alternative investments, which are accounted for under the equity method. As a result of the timing of the receipt of valuation data from the investment managers, these investments are generally reported on up to a three-month lag. Changes in the Company's equity in the net assets of these investments are included in income as net realized investment gains.

Impairments in debt securities deemed to be other than temporary are segregated into credit risk and non-credit risk impairments. Credit risk impairments are reported as a component of income before income taxes. Non-credit risk impairments are recognized in other comprehensive income. Securities are reviewed for both quantitative and qualitative considerations in the determination of impairments.

Under a securities lending program with an agent, the Company can temporarily loan certain debt securities. Borrowers of these securities must deposit with the agent an amount of cash and/or securities equal to 102% of the loaned securities' fair value for U.S. currency-denominated securities or 105% of the loaned securities' fair value for foreign-denominated securities. The portion of collateral received in securities is held in trust by the agent. The portion of collateral received in cash is invested by the agent in high-quality, short-term investments. The Company continues to receive the interest on the loaned debt securities as the beneficial owner, and the loaned debt securities are included in the investment portfolio of the Company. The cash collateral and the obligation to return that collateral are included in other assets and other liabilities, respectively, in the Consolidated Balance Sheets.

In the normal course of business, the Company has investments in variable interest entities (VIEs) primarily as a passive investor in residential mortgage-backed securities, commercial mortgage-backed securities, and private equity limited partnerships issued by third-party VIEs. The Company is not the primary beneficiary of these VIEs. The Company's maximum exposure to loss with respect to these investments is limited to the investment carrying values included in the Company's Consolidated Balance Sheets and the unfunded commitments related to partnerships and private equity investments. The Company has unfunded commitments of $875,500 and $918,900 as of December 31, 2021 and 2020, respectively.

Income Taxes

The Company files consolidated U.S. and foreign income tax returns as required by law. The income tax expense is based on income before taxes reported in the Consolidated Financial Statements. Deferred income taxes are provided, when appropriate, for the effects of temporary differences in reporting income and expenses for tax and financial reporting purposes. Deferred income taxes are also provided for unrealized appreciation or depreciation of investments, for pension and postretirement liabilities and for foreign currency translations.

The Company's tax returns for tax years 2015 – 2018 are currently under examination by the IRS. The statute of limitations for examination of tax years 2015 and later is still open.

Deferred Costs

Premium taxes and commissions, the principal business acquisition costs, are deferred to the extent recoverable and are amortized over the period during which the related premium is earned. Deferred costs are included in other assets.

Certain pre-rental and other expenses incurred by the Company's real estate limited liability corporation subsidiaries are deferred and amortized over the lives of the various tenant leases.

Note 1. Significant Accounting Policies *(continued)*

Real Estate and Premises and Equipment

Premises and equipment are stated at net book value, and depreciation is recorded on a straight-line basis over the estimated useful lives of the respective assets. Upon retirement or sale, the cost of the asset disposed of and its related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in net realized investment gains. The net book value of the Company's investments in land and buildings is included in real estate, whereas the net book value of the Company's occupied land and buildings, furniture, fixtures and equipment is included in premises and equipment.

Unpaid Losses and Loss Adjustment Expenses

Liabilities for unpaid losses and loss adjustment expenses are based on case estimates or reports from ceding companies. Estimates of incurred-but-not-reported (IBNR) reserves are based on historical experience and management analysis.

Although the above-described amounts are based on estimates, management believes the recorded liabilities for unpaid losses and loss adjustment expenses are reasonable to cover the ultimate settlement cost of losses incurred. These estimates are continually reviewed and adjustments to such estimates are reflected in current operations.

Premium

The Company issues term premium policies. The term premium is earned on a daily pro-rata basis over the life of the policy, which is typically one year. Unearned premium is the amount of unexpired written premium related to policies in-force.

Translation of Foreign Currency

The Company translates the financial statements of its foreign operations into U.S. dollars from the functional currency applicable for each foreign unit, which is the currency of the country representing the primary economic environment in which each operation conducts business. Foreign currency balances are re-measured to the respective functional currencies, and the resulting foreign exchange gains or losses are reflected in earnings. Functional currency assets and liabilities are then translated into U.S. dollars at the exchange rates in effect at the end of the period, while income and expenses are translated at average rates. Foreign currency translation adjustments are recorded as a separate component of the Consolidated Statements of Comprehensive Income, net of income taxes.

Reinsurance

In the normal course of business, the Company seeks to reduce losses that may arise from catastrophes or other events by reinsuring certain levels of risk with other insurance enterprises. Reinsurance premium and losses and loss adjustment expenses ceded under these arrangements are accounted for on bases consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts.

Retirement Income Plans and Postretirement Benefit Plans Other than Pensions

Noncontributory retirement income plans cover the vast majority of employees. The Company's funding policy is generally to contribute the net periodic pension cost each year, as determined pursuant to the guidance in *Compensation – Employee Benefits (ASC 715)*. However, the contribution for any year will not be less than the minimum required contribution, nor greater than the maximum tax-deductible contribution allowed in each country with plans in place.

The Company provides certain healthcare and life insurance benefits for retired employees and their dependents. The plans are contributory, with retiree contributions adjusted annually, and contain other cost-sharing features, such as deductibles and coinsurance. Current service and interest costs of postretirement healthcare and life insurance benefits are expensed on an accrual basis.

Note 1. Significant Accounting Policies *(continued)*

Investment-Related and Fee-Related Income

Investment-related income primarily consists of interest and dividends from the Company's investment portfolio and income from leased office space, which is earned as services are provided or over the term of applicable leases. Fee-related income primarily consists of fees for ancillary services, which is earned as the Company completes performance obligations.

Recent Accounting Pronouncements Adopted

In March 2017, the FASB issued ASU 2017-08, *Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20), Premium Amortization on Purchased Callable Debt Securities*. ASU 2017-08 shortens the amortization period for certain callable debt securities held at a premium. The update is effective for annual reporting periods beginning on or after December 15, 2019. The Company has adopted this standard as of January 1, 2020. The adoption did not have an effect on the Company's consolidated financial statements and related disclosures.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820), Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*. The guidance eliminates, adds and modifies certain disclosure requirements for fair value measurements as part of the FASB's disclosure framework project. ASU 2018-13 also eliminates the requirement for entities to disclose the amount of, and reasons for, transfers between Level 1 and Level 2 of the fair value hierarchy. The update is effective for annual reporting periods beginning on or after December 15, 2019. The Company has adopted this standard as of January 1, 2020. The adoption did not have an effect on the Company's consolidated financial statements and the related disclosures have been modified accordingly.

In August 2018, the FASB issued ASU 2018-14, *Compensation – Retirement Benefits – Defined Benefit Plans (Subtopic 715-20)*. ASU 2018-14 eliminates the requirement for certain disclosures related to defined benefit pensions that are no longer cost effective, while clarifying the specific requirements of disclosures and adding other relevant disclosure requirements as applicable. The update is effective for annual reporting periods ending after December 15, 2021. The Company adopted this standard as of January 1, 2021. The adoption did not have an effect on the Company's consolidated financial statements and the related disclosures have been modified accordingly.

In August 2018, the FASB issued ASU 2018-15, *Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*. ASU 2018-15 aligns the accounting for implementation costs incurred in a software hosting arrangement (i.e., a cloud computing arrangement) that is a service contract with the guidance for capitalizing implementation costs incurred to develop or obtain internal-use software. Accordingly, the updated guidance requires an entity to determine whether these costs should be expensed as incurred or capitalized. The updated guidance also requires the entity to amortize the capitalized implementation costs as an expense over the term of the hosting arrangement. The update is effective for annual reporting periods beginning after December 15, 2020. The Company adopted this standard as of January 1, 2021. The adoption did not have a material impact on the Company's consolidated financial statements and related disclosures.

Note 1. Significant Accounting Policies *(continued)*

Accounting Standards Not Yet Adopted

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which supersedes existing lease guidance. Under the new guidance, lessees are to recognize in the statement of financial position a right-of-use asset and a lease payments liability that represent the right to use the underlying asset and the related obligations over the lease term. The update is effective for annual reporting periods beginning on or after December 15, 2021. The Company will adopt this standard as of January 1, 2022. The adoption will not have a material impact on the Company's consolidated financial statements and all related disclosures will be modified accordingly.

(in thousands)

Note 2. Investments

Debt and Equity Securities

The following is a summary of securities at December 31, 2021:

	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt securities:				
U.S. Treasury securities and obligations of U.S. government agencies	$ 1,435,100	$ 35,700	$ (12,600)	$ 1,458,200
Obligations of states and political subdivisions	1,616,900	59,300	(3,600)	1,672,600
Mortgage and asset-backed securities:				
Agency	1,287,900	31,200	(7,500)	1,311,600
Commercial	256,400	6,900	(900)	262,400
Other mortgage and asset-backed securities	363,800	4,300	(1,400)	366,700
U.S. corporate securities	1,899,600	74,200	(9,600)	1,964,200
Foreign government securities	698,000	9,200	(5,300)	701,900
Bond funds	889,500	4,800	(12,200)	882,100
Other debt securities	525,000	7,000	(3,900)	528,100
Total debt securities	8,972,200	232,600	(57,000)	9,147,800
Equity securities:				
Consumer discretionary	498,600	1,194,900	(16,000)	1,677,500
Consumer staples	208,500	260,300	(3,300)	465,500
Energy	103,500	103,700	(3,900)	203,300
Financials	352,500	510,000	(300)	862,200
Healthcare	471,600	372,600	(7,600)	836,600
Industrials	174,800	287,800	(1,000)	461,600
Information technology	297,200	1,304,100	(200)	1,601,100
Mutual funds (international and emerging markets)	3,316,600	630,400	(49,900)	3,897,100
Foreign	136,700	21,200	(2,900)	155,000
All other sectors	376,500	366,300	(9,000)	733,800
Total equity securities	5,936,500	5,051,300	(94,100)	10,893,700
Total debt and equity securities	$ 14,908,700	$ 5,283,900	$ (151,100)	$ 20,041,500

(in thousands)

Note 2. Investments *(continued)*

The following is a summary of securities at December 31, 2020:

	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt securities:				
U.S. Treasury securities and obligations of U.S. government agencies	$ 1,388,300	$ 67,800	$ (6,300)	$ 1,449,800
Obligations of states and political subdivisions	1,588,400	87,100	(800)	1,674,700
Mortgage and asset-backed securities:				
Agency	1,303,800	50,400	(1,300)	1,352,900
Commercial	234,600	15,600	(100)	250,100
Other mortgage and asset-backed securities	357,500	10,300	(100)	367,700
U.S. corporate securities	1,755,000	132,000	(8,600)	1,878,400
Foreign government securities	930,600	39,100	(300)	969,400
Bond funds	382,300	7,400	(700)	389,000
Other debt securities	455,200	21,700	(100)	476,800
Total debt securities	8,395,700	431,400	(18,300)	8,808,800
Equity securities:				
Consumer discretionary	383,300	968,400	(12,500)	1,339,200
Consumer staples	219,600	302,300	(6,700)	515,200
Energy	102,700	62,500	(15,300)	149,900
Financials	389,000	395,800	(2,500)	782,300
Healthcare	424,700	378,900	(3,400)	800,200
Industrials	217,900	288,800	(1,800)	504,900
Information technology	218,300	1,089,600	(2,100)	1,305,800
Mutual funds (international and emerging markets)	2,090,100	573,100	(12,000)	2,651,200
Foreign	75,500	10,100	(300)	85,300
All other sectors	362,000	321,200	(9,900)	673,300
Total equity securities	4,483,100	4,390,700	(66,500)	8,807,300
Total debt and equity securities	$ 12,878,800	$ 4,822,100	$ (84,800)	$ 17,616,100

During the years ended December 31, 2021 and 2020, purchases of debt securities were $7,175,200 and $5,630,100, respectively; purchases of equity securities were $3,773,200 and $2,812,800, respectively; proceeds from the sale of debt securities were $6,326,400 and $4,724,300, respectively; and proceeds from the sale of equity securities were $3,468,300 and $3,228,100, respectively.

The gross realized gains and (losses) on sales of debt and equity securities totaled $1,282,900 and $(71,700) in 2021, and $1,078,500 and $(142,500) in 2020.

(in thousands)

Note 2. Investments *(continued)*

The net gains and losses recognized on equity securities during the years ended December 31, 2021 and 2020, totaled $1,809,700 and $1,254,900, respectively. At December 31, 2021, $1,176,600 is related to securities sold during the period and $633,100 is related to unrealized gains and losses on equity securities still held. At December 31, 2020, $872,200 is related to securities sold during the period and $382,700 is related to unrealized gains and losses on equity securities that were held.

The amortized cost and fair value of debt securities at December 31, 2021, by contractual maturity are shown below. Expected maturities may differ from contractual maturities because the issuers of the securities may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
Due in one year or less	$ 172,900	$ 175,000
Due after one year through five years	2,859,100	2,926,600
Due after five years through ten years	2,668,100	2,735,900
Due after ten years	1,364,000	1,369,600
Subtotal	7,064,100	7,207,100
Mortgage and asset-backed securities	1,908,100	1,940,700
Total debt securities	$ 8,972,200	$ 9,147,800

In prior years, the Company temporarily loaned certain debt securities with a fair value of $151,400 at December 31, 2020. The company held total collateral values of $154,400 related to these securities at December 31, 2020, of which cash collateral included in other assets and other liabilities was $66,900. There were no temporarily loaned debt securities at December 31, 2021.

Included in the Company's debt security portfolio are securities with unrealized losses deemed to be temporary. The total unrealized loss on these securities was $57,000 (fair value of $3,381,500) at December 31, 2021, and $18,300 (fair value of $745,300) at December 31, 2020. The amount of loss that existed for 12 months or more was immaterial for both 2021 and 2020. In reaching its conclusion that these impairments are temporary, the Company considered issuer-specific circumstances as well as the fact that the Company does not intend to sell these securities and it is unlikely that the Company will be required to sell before they recover in value or mature.

During the years ended December 31, 2021 and 2020, net realized investment gains on other securities were $452,900 and $170,600, respectively.

Credit Risk

All debt security investments have credit exposure to the extent that a counterparty may default on an obligation to the Company. To manage credit risk, the Company focuses on high-quality debt securities, reviews the credit strength of all companies in which it invests, limits its exposure in any one investment and monitors the portfolio quality.

Note 3. Fair Value

The valuation techniques required by the *Fair Value Measurements (ASC 820)* guidance are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect market assumptions determined by the Company.

(in thousands)

Note 3. Fair Value *(continued)*

These two types of inputs create the following fair value hierarchy:

Level 1 Quoted prices for identical instruments in active markets.

Level 2 Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.

Level 3 Significant inputs to the valuation model are unobservable.

The Company retains independent pricing vendors to assist in valuing invested assets. In compliance with the *ASC 820* guidance, the Company conducted a review of the primary pricing vendor, validating that the inputs used in that vendor's pricing process are deemed to be market-observable as defined in the standard.

When available, the Company uses quoted market prices to determine the fair value of investment securities, and they are included in Level 1.

When quoted market prices are unavailable, the Company uses quotes from independent pricing vendors based on recent trading activity and other relevant information. Debt securities are priced by an independent vendor using evaluated market pricing models that vary by asset class. These models incorporate available trade, bid and other market information, and for structured securities, also incorporate cash flow and, when available, loan performance data. The pricing models apply available market information through processes such as benchmark curves, benchmarking of similar securities and sector groupings. The vendors also integrate observed market movements, sector news and relevant credit information into the evaluated pricing applications and models. These investments are included in Level 2 and are primarily comprised of debt securities.

The Company did not hold any assets classified as Level 3 in 2021 or 2020.

The following table presents the Company's invested assets measured at fair value as of December 31, 2021:

Invested Assets, at Fair Value	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Debt securities	$ 9,147,800	$ 14,200	$ 9,133,600
Equity securities	10,893,700	10,893,700	–
Total	$ 20,041,500	$ 10,907,900	$ 9,133,600

The following table presents the Company's invested assets measured at fair value as of December 31, 2020:

Invested Assets, at Fair Value	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Debt securities	$ 8,808,800	$ 19,300	$ 8,789,500
Equity securities	8,807,300	8,807,300	–
Total	$ 17,616,100	$ 8,826,600	$ 8,789,500

(in thousands)

Note 3. Fair Value *(continued)*

All debt securities are measured at fair value and are classified as Level 2 with the exception of certain short-term securities, which were priced using quoted market prices and therefore classified as Level 1. See Note 2 for a breakout of debt securities by category.

All equity securities are priced using quoted market prices and classified as Level 1. See Note 2 for a breakout of equity securities by category.

Securities lending collateral held is classified as Level 1.

Note 4. Reinsurance

The Company evaluates the financial condition of its reinsurers and monitors concentrations of credit risk to minimize its exposure to significant losses from potential reinsurer insolvencies. While such evaluations are intended to minimize the Company's exposure, the ultimate collection of reinsurance recoverable depends on the financial soundness of the individual reinsurers. The reinsurance contracts do not relieve the Company from its obligations to policyholders. Failure of reinsurers to honor their obligations could result in losses to the Company; consequently, allowances are established for amounts deemed uncollectible.

The effect of reinsurance on written premium is as follows:

	Year ended Dec. 31,	
	2021	2020
Gross written premium	$ 7,959,200	$ 7,205,300
Ceded written premium	(2,160,300)	(2,113,400)
Net written premium	$ 5,798,900	$ 5,091,900

Ceded losses and loss adjustment expenses incurred for the years ended December 31, 2021 and 2020, were $1,574,300 and $1,111,600, respectively.

(in thousands)

Note 5. Unpaid Losses and Loss Adjustment Expenses

Activity in the net liability for unpaid losses and loss adjustment expenses (LAE) is summarized as follows:

	Year ended Dec. 31,	
	2021	2020
Gross unpaid as of January 1	$ 5,705,000	$ 5,508,200
Less: unpaid reinsurance recoverable	2,194,400	1,843,000
Net unpaid as of January 1	3,510,600	3,665,200
Net incurred related to:		
Current year	3,354,900	3,322,600
Prior years	(243,800)	(241,700)
Total net incurred	3,111,100	3,080,900
Net paid related to:		
Current year	816,900	1,243,000
Prior years	1,591,600	1,992,500
Total net paid	2,408,500	3,235,500
Gross unpaid as of December 31	7,064,200	5,705,000
Less: unpaid reinsurance recoverable	2,851,000	2,194,400
Net unpaid as of December 31	$ 4,213,200	$ 3,510,600

The 2021 and 2020 decreases in net incurred on insured events for prior years were due to the reduction of incurred-but-not-reported (IBNR) reserves based on actual experience.

The Company's liability is categorized as either continuing (commercial property) or discontinued lines of business (asbestos, environmental and other mass tort-related claims, which applies to business that is in runoff).

In establishing the liability for continuing losses and LAE, there is uncertainty in management's estimates that may cause these estimates to differ from ultimate payments. In establishing the liability for unpaid losses and LAE related to discontinued lines of business, management considers facts currently known and the current state of the law and coverage litigation. Liabilities are recognized for known claims (including the cost of related litigation) when sufficient information has been developed to indicate the involvement of a specific insurance policy and management can reasonably estimate the Company's liability. Liabilities have also been established to cover additional exposures on reported and IBNR claims. Developed case law and adequate claims history typically do not exist for the discontinued lines of business, primarily because significant uncertainty exists about the outcomes of coverage litigation and whether past claims experience will be representative of future claims experience.

The Company is the subject of various asserted and unasserted claims and lawsuits covering a wide variety of claims-related issues that arise out of the normal course of its business activities. Contingent liabilities arising from litigation and other matters are not considered material in relation to the consolidated financial position or operations of the Company.

The following disclosures reflect only commercial property insurance from the Company's continuing book of business and excludes other short-duration lines of business that are considered immaterial and discontinued lines of business.

The Company's liability is segmented into three major categories: reserves for reported claims (estimates made by claims adjusters), IBNR representing reserves for unreported claims, and supplemental reserves for reported claims, including LAE.

(in thousands)

Note 5. Unpaid Losses and Loss Adjustment Expenses *(continued)*

In addition to discussions with claims representatives, the Company generally uses the cumulative incurred development method to establish IBNR loss reserves. This method assumes that the future change (adverse or redundant) in cumulative incurred losses will be consistent with historical patterns.

LAE reserves represent management's estimate of future expenses for investigating and settling claims. The LAE reserve is based on a historical ratio of actual loss adjustment expenses paid in comparison to the actual loss payments.

There have been no significant changes to the methodology used to establish IBNR during 2021 or 2020.

Due to the short-tail nature of commercial property insurance, the disclosures below reflect the undiscounted information as of December 31, 2021, and for each of the four previous accident years.

All amounts have been translated from the local currency to U.S. dollars using the December 31, 2021 foreign exchange rates for all years presented to isolate changes in foreign exchange from loss development.

The Company compiles and aggregates its claims data by grouping claims according to the year in which the claim occurred (accident year). With respect to the cumulative number of reported claims, the amount represents the accumulation of individual claims, which is measured by individual claimant. Individual claims that do not result in a liability are excluded from the calculation of the cumulative claim frequency.

	Incurred Losses and LAE, Net of Reinsurance, as of Dec. 31,					As of Dec. 31, 2021	
Accident Year	2017	2018	2019	2020	2021	IBNR	Cumulative Reported Claims
	Supplemental and Unaudited						
2017	$4,016,700	$3,960,700	$3,877,400	$3,821,500	$ 3,815,700	$ (4,900)	11,375
2018		3,876,200	3,499,300	3,376,700	3,360,200	8,700	11,179
2019			2,540,200	2,490,000	2,484,600	(3,700)	9,551
2020				3,192,200	2,999,900	6,900	8,900
2021					3,168,500	280,200	6,028
Total					$ 15,828,900		

	Cumulative Paid Losses and LAE, Net of Reinsurance, as of Dec. 31,				
Accident Year	2017	2018	2019	2020	2021
	Supplemental and Unaudited				
2017	$1,041,600	$2,793,200	$3,617,200	$3,733,500	$ 3,785,400
2018		1,088,900	2,668,500	3,120,500	3,294,500
2019			869,300	2,232,400	2,301,300
2020				1,154,000	2,404,400
2021					605,600
Total					$ 12,391,200
Unpaid losses and LAE prior to 2017, net of reinsurance					$ 3,300
Total unpaid losses and LAE, net of reinsurance					$ 3,441,000

(in thousands)

Note 5. Unpaid Losses and Loss Adjustment Expenses *(continued)*

The following disclosure presents the average annual payout of incurred claims by age, net of reinsurance, as of December 31, 2021:

	Average Annual Percentage of Payments on Incurred Claims by Age, Net of Reinsurance				
Years	1	2	3	4	5
	Supplemental and Unaudited				
	30.5%	47.4%	12.6%	4.1%	1.4%

The following is a reconciliation of the information in this disclosure to the consolidated gross liability for unpaid losses and LAE reported in the consolidated financial statements:

	As of Dec. 31, 2021
Commercial property	$ 3,441,000
Other short-duration insurance lines of business	56,900
Unpaid losses and LAE, net of reinsurance	$ 3,497,900
Commercial property	$ 2,286,800
Reinsurance recoverable on unpaid losses and LAE	$ 2,286,800
Discontinued lines of business	$ 1,299,900
Foreign exchange	(20,400)
Other gross unpaid losses and LAE	$ 1,279,500
Total gross unpaid losses and LAE	$ 7,064,200

Note 6. Real Estate and Premises and Equipment

Real estate and premises and equipment at December 31, 2021 and 2020, are summarized as follows:

	2021	2020
Land and buildings	$ 1,874,600	$ 1,723,200
Furniture, fixtures and equipment	730,100	659,600
Accumulated depreciation	(1,086,800)	(984,200)
Total	$ 1,517,900	$ 1,398,600

During 2021 and 2020, depreciation expense for real estate and premises and equipment was $104,800 and $94,900, respectively.

(in thousands)

Note 7. Leases

In connection with its various operating offices located throughout the world, the Company leases office space, automobiles and equipment. These leases are classified as operating leases.

Future minimum lease payments at December 31, 2021, under operating leases with terms of one year or more are, in aggregate, $277,400. The future minimum lease payments for each of the five succeeding years from 2022 to 2026 are $48,700, $46,400, $42,600, $32,100, and $23,400, respectively.

During 2021 and 2020, rent expense for all operating leases was $64,900 and $63,200, respectively.

Note 8. Income Taxes

In response to the market volatility and economic instability prompted by COVID-19, the CARES Act was signed into law on March 27, 2020. The CARES Act ("the Act") was a relief package comprised of stimulus measures, tax provisions and certain technical corrections to the 2017 Tax Cuts and Jobs Act. The Company recognized no net impact to income tax for the year ended December 31, 2020, as a result of the CARES Act.

The following is the current and deferred income tax expense for the years ended December 31, 2021 and 2020:

	2021	2020
Current income tax expense	$ 926,000	$ 300,800
Deferred income tax (benefit) / expense	(285,800)	128,500
Total income tax expense	$ 640,200	$ 429,300

A reconciliation of income tax expense computed at U.S. Federal statutory tax rates to the income tax expense as included in the accompanying Consolidated Statements of Income follows for the years ended December 31, 2021 and 2020:

	2021	2020
Income tax expense at U.S. Federal statutory tax rate	$ 731,300	$ 453,800
Tax effect of:		
Nontaxable investment income	(15,300)	(16,000)
Effect of foreign operations	(14,700)	13,500
Tax credits	(80,300)	(14,000)
Other	19,200	(8,000)
Actual income tax expense	$ 640,200	$ 429,300

(in thousands)

Note 8. Income Taxes *(continued)*

The significant components of the net deferred tax liability at December 31, 2021 and 2020, are as follows:

	2021	2020
Deferred tax liabilities:		
Deferred acquisition costs	$ (19,200)	$ (16,800)
Unrealized appreciation	(1,032,000)	(971,200)
Deferred foreign income	(53,500)	(45,500)
Benefit plan expenses	(7,800)	–
Other	(126,200)	(80,900)
Total deferred tax liabilities	(1,238,700)	(1,114,400)
Deferred tax assets:		
Unpaid claims discounting	20,900	15,100
Unearned premium reserve	116,900	105,900
Compensation accruals	86,400	67,500
Mixed service costs	396,600	–
Benefit plan expenses	–	57,200
Unrealized investment losses	36,800	38,400
Tax credits	43,400	33,100
Unrelieved foreign tax	39,900	38,100
Deferred foreign losses	17,600	23,800
Other	16,400	19,200
Total deferred tax assets	774,900	398,300
Valuation allowance	(71,800)	(77,900)
Net deferred tax assets	703,100	320,400
Net deferred tax liability	$ (535,600)	$ (794,000)

At December 31, 2021 and 2020, the Company established a valuation allowance for its foreign subsidiary's unrelieved foreign tax, foreign net operating losses and discretionary reserves in jurisdictions with insufficient evidence of future income.

Income tax paid during 2021 and 2020 was $920,900 and $251,000, respectively. In addition, the Company received income tax refunds of $7,500 during 2021 and $15,000 during 2020.

The Company invests in partnerships which make equity investments in projects eligible to receive historic, energy, low-income housing and new market tax credits, collectively investment tax credits. The investments are accounted for under the equity method and reported within other assets in our Consolidated Balance Sheets. The tax credits, when realized, are recognized as a reduction of tax expense under the flow-through method, at which time the corresponding equity investment is written-down to reflect the remaining value of the future benefits to be realized. For the years ended December 31, 2021 and 2020 the Company recognized investment tax credits of $94,900 and $10,400, respectively. The equity investment write-down is reflected within net realized investment gains in the Consolidated Statements of Income. There are no investment tax credit carryforwards at December 31, 2021 or 2020.

Note 8. Income Taxes *(continued)*

The calculation of the Company's tax liability involves dealing with uncertainties in the application of complex tax laws and regulations in a multitude of jurisdictions across its global operations. A tax benefit is recognized when it is more likely than not that the position will be sustained on examination, on the basis of technical merits. The Company records unrecognized tax benefits as liabilities in accordance with *ASC 740* and adjusts these liabilities when its judgment changes as a result of the evaluation of new information not previously available. Because of the complexity of some of these uncertainties, the ultimate resolution may result in a payment that is materially different from the Company's current estimate of the unrecognized tax benefit. These differences will be reflected as increases or decreases to income tax expense in the period in which new information is available.

The Company's unrecognized tax benefits are immaterial and it does not expect any material changes within 12 months of the reporting date.

Included in other assets in the Consolidated Balance Sheets are current income taxes recoverable of $121,500 and $173,000 at December 31, 2021 and 2020, respectively.

Note 9. Retirement Income Plans and Postretirement Benefit Plans Other than Pensions

The Company sponsors certain noncontributory retirement income plans. For the vast majority of employees, the benefits are generally based on years of service and the average of the highest consecutive 60 months of the employee's compensation within the 120 months prior to retirement. The Company's funding policy is to maintain a sufficiently funded level to ensure benefit security and to vary contribution levels as appropriate to business conditions. The Company also has supplemental retirement plans that are noncontributory defined benefit plans covering certain employees.

The Company provides healthcare and life insurance benefits for certain retired employees and their dependents. Employees hired on or after January 1, 2000, and employees that were active employees on January 1, 2000, and had not reached the age of 30 as of January 1, 2000, are not eligible for retiree medical benefits. Eligibility of other employees hired prior to January 1, 2000, and retiring subsequent to that date depends on whether they meet certain age and service requirements at retirement. The plan is generally contributory, with retiree contributions adjusted annually. Certain retirees transitioned to the individual Medicare market effective January 1, 2014, and January 1, 2019. Certain other retirees transitioned on January 1, 2020. Retirees and dependents enrolled in the individual Medicare market participate in a Retiree Health Reimbursement Account.

(in thousands)

Note 9. Retirement Income Plans and Postretirement Benefit Plans Other than Pensions *(continued)*

Obligations and funded status are as follows:

	Pension and Supplemental Benefits		Other Benefits	
	Dec. 31, 2021	Dec. 31, 2020	Dec. 31, 2021	Dec. 31, 2020
Benefit obligations	$ 3,825,000	$ 3,831,000	$ 192,600	$ 198,800
Fair value of plan assets	3,830,200	3,513,000	194,300	168,500
Funded status, end of year	$ 5,200	$ (318,000)	$ 1,700	$ (30,300)

During 2021, the overall decreases in the Company's global pension and other postretirement benefit plan obligations were primarily due to increases in discount rates.

During 2020, the overall increases in the Company's global pension and other postretirement benefit plan obligations were primarily due to decreases in discount rates.

The accumulated benefit obligations for the pension and supplemental benefit plans were $3,189,000 and $3,210,000 at December 31, 2021 and 2020, respectively.

The net amounts recognized in other assets and other liabilities are as follows:

	Pension and Supplemental Benefits		Other Benefits	
	Dec. 31, 2021	Dec. 31, 2020	Dec. 31, 2021	Dec. 31, 2020
Asset	$ 466,100	$ 116,300	$ 56,100	$ 16,800
Liability	(460,900)	(434,300)	(54,400)	(47,100)
Total	$ 5,200	$ (318,000)	$ 1,700	$ (30,300)

Pretax amounts included in accumulated other comprehensive loss are as follows:

	Pension and Supplemental Benefits		Other Benefits	
	Dec. 31, 2021	Dec. 31, 2020	Dec. 31, 2021	Dec. 31, 2020
Net actuarial loss	$ 547,400	$ 896,300	$ 8,000	$ 36,600
Prior service cost / (credit)	5,300	6,300	(7,100)	(10,500)
Total	$ 552,700	$ 902,600	$ 900	$ 26,100

The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for pension and supplemental benefit plans with an accumulated benefit obligation in excess of plan assets are as follows:

	Dec. 31, 2021	Dec. 31, 2020
Projected benefit obligation, end of year	$ 524,200	$ 476,800
Accumulated benefit obligation, end of year	384,000	374,600
Fair value of plan assets, end of year	63,300	59,000

The projected benefit obligation and fair value of plan assets for pension and supplemental benefit plans with a projected benefit obligation in excess of plan assets are as follows:

	Dec. 31, 2021	Dec. 31, 2020
Projected benefit obligation, end of year	$ 524,200	$ 883,600
Fair value of plan assets, end of year	63,300	449,400

(in thousands)

Note 9. Retirement Income Plans and Postretirement Benefit Plans Other than Pensions *(continued)*

Other changes in plan assets and benefit obligations recognized in the Consolidated Statements of Comprehensive Income are as follows:

	Pension and Supplemental Benefits		Other Benefits	
	Dec. 31, 2021	Dec. 31, 2020	Dec. 31, 2021	Dec. 31, 2020
Current year actuarial (gain) / loss	$ (285,400)	$ 167,200	$ (26,500)	$ (300)
Amortization of actuarial loss	(63,500)	(47,500)	(2,100)	(2,500)
Amortization of prior service cost	(1,000)	(300)	3,400	3,400
Amortization of net transition asset	–	100	–	–
Total recognized in other comprehensive (income) / loss	(349,900)	119,500	(25,200)	600
Net periodic benefit cost	81,100	55,300	(4,700)	(3,300)
Total recognized in net periodic benefit cost and other comprehensive (income) / loss	$ (268,800)	$ 174,800	$ (29,900)	$ (2,700)

The net periodic benefit cost consists of service costs and other periodic benefit costs, which include interest expense, expected return on assets, and amortization of gains and losses. The other periodic benefit components represent a benefit of $48,500 and $47,400 in 2021 and 2020, respectively, and are included as part of total losses, loss adjustment and other expenses on the accompanying Consolidated Statements of Income.

Assumptions

Weighted-average assumptions used to determine benefit obligations are as follows:

	Pension and Supplemental Benefits		Other Benefits	
	Dec. 31, 2021	Dec. 31, 2020	Dec. 31, 2021	Dec. 31, 2020
Discount rate	2.87%	2.58%	2.69%	2.25%
Rate of compensation increase	4.20%	4.21%	4.13%	4.14%

Assumed healthcare cost trend rates:

	Other Benefits	
	Dec. 31, 2021	Dec. 31, 2020
Initial rate	5.86%	5.87%
Ultimate rate	4.95%	4.96%
Years to ultimate	5 years	6 years

(in thousands)

Note 9. Retirement Income Plans and Postretirement Benefit Plans Other than Pensions *(continued)*

Weighted-average assumptions used to determine net periodic benefit cost are as follows:

	Pension and Supplemental Benefits		Other Benefits	
	Dec. 31, 2021	Dec. 31, 2020	Dec. 31, 2021	Dec. 31, 2020
Discount rate	2.58%	3.21%	2.25%	3.10%
Expected long-term return on plan assets	6.54%	6.75%	6.00%	6.50%
Rate of compensation increase	4.21%	4.27%	4.14%	4.15%

Assumed healthcare cost trend rates:

	Other Benefits	
	Dec. 31, 2021	Dec. 31, 2020
Initial rate	5.87%	6.80%
Ultimate rate	4.96%	4.96%
Years to ultimate	6 years	4 years

Pension and Supplemental Benefit Plan Assets

The Company's pension and supplemental benefit plan asset allocation and target allocation are as follows:

	Target Allocation	Percentage of Plan Assets	
	Dec. 31, 2022	Dec. 31, 2021	Dec. 31, 2020
Asset Class			
Equity securities	55%	59%	60%
Debt securities	36	32	32
Cash equivalents	2	2	3
Other	7	7	5
Total	100%	100%	100%

The maturities of debt securities are as follows:

	Dec. 31, 2021	Dec. 31, 2020
Maturity range	0 – 60 years	0 – 51 years
Weighted-average maturity	23.99 years	19.22 years

(in thousands)

Note 9. Retirement Income Plans and Postretirement Benefit Plans Other than Pensions *(continued)*

The fair value measurements of pension and supplemental benefit plan assets at December 31, 2021, are as follows (refer to Note 3 for the valuation techniques):

Asset Class	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Equity securities:			
Consumer discretionary	$ 38,500	$ 38,500	$ –
Consumer staples	15,100	15,100	–
Energy	6,700	6,700	–
Financials	101,900	101,900	–
Healthcare	38,500	38,500	–
Industrials	45,600	45,600	–
Information technology	52,800	52,800	–
Mutual funds	691,000	419,400	271,600
Foreign	30,500	30,500	–
All other sectors	25,500	25,500	–
Total equity securities	1,046,100	774,500	271,600
Debt securities:			
U.S. Treasury securities and obligations of U.S. government agencies	163,400	–	163,400
Mortgage and asset-backed securities			
Agency	16,700	–	16,700
Other mortgage and asset-backed securities	200	–	200
U.S. corporate securities	352,400	–	352,400
Mutual funds	345,700	–	345,700
Foreign	3,400	–	3,400
Total debt securities	881,800	–	881,800
Common collective trusts	1,574,900	–	1,574,900
Cash equivalents	76,000	76,000	–
Total	$ 3,578,800	$ 850,500	$ 2,728,300

Pension assets as of December 31, 2021, include $251,400 of partnerships and hedge funds measured under the equity method using net asset value (NAV).

(in thousands)

Note 9. Retirement Income Plans and Postretirement Benefit Plans Other than Pensions *(continued)*

The fair value measurements of pension and supplemental benefit plan assets at December 31, 2020, are as follows (refer to Note 3 for the valuation techniques):

Asset Class	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Equity securities (a):			
Consumer discretionary	$ 167,200	$ 167,200	$ –
Consumer staples	72,300	72,300	–
Energy	33,600	33,600	–
Financials	170,700	170,700	–
Healthcare	128,700	128,700	–
Industrials	107,500	107,500	–
Information technology	214,400	214,400	–
Mutual funds	680,600	414,300	266,300
Foreign	29,200	29,200	–
All other sectors	81,300	81,300	–
Total equity securities	1,685,500	1,419,200	266,300
Debt securities (b):			
U.S. Treasury securities and obligations of U.S. government agencies	123,400	–	123,400
Mortgage and asset-backed securities			
Agency	45,500	–	45,500
Other mortgage and asset-backed securities	10,400	–	10,400
U.S. corporate securities	354,700	–	354,700
Mutual funds	243,500	–	243,500
Foreign	3,700	–	3,700
Total debt securities	781,200	–	781,200
Common collective trusts	786,700	–	786,700
Cash equivalents	113,700	113,700	–
Total	$ 3,367,100	$ 1,532,900	$ 1,834,200

(a) Includes common stocks and equity mutual funds of which $49,300 were on loan under a securities lending program as of December 31, 2020.

(b) Includes $1,900 of debt securities that were on loan under a securities lending program as of December 31, 2020.

The total collateralized value of these loaned securities for both items (a) and (b) was $52,400 and consisted of $17,600 in Level 1 short-term and money market investments and $34,800 in Level 2 government agency debt securities.

Pension assets as of December 31, 2020, include $145,900 of partnerships and hedge funds measured under the equity method using net asset value (NAV).

(in thousands)

Note 9. Retirement Income Plans and Postretirement Benefit Plans Other than Pensions *(continued)*

Other Postretirement Benefit Plan Assets

The Company's other postretirement benefit plan asset allocation and target allocation are as follows:

	Target Allocation	Percentage of Plan Assets	
	Dec. 31, 2022	Dec. 31, 2021	Dec. 31, 2020
Asset Class			
Equity securities	90%	85%	93%
Cash equivalents	10	15	7
Total	100%	100%	100%

The fair value measurements of other postretirement benefit plan assets at December 31, 2021 and 2020, consisting of all Level 1 assets, are as follows (refer to Note 3 for the valuation techniques):

Asset Class	Dec. 31, 2021	Dec. 31, 2020
Equity securities:		
Consumer discretionary	$ 31,300	$ 28,400
Consumer staples	11,900	11,700
Energy	5,200	5,100
Financials	15,200	14,700
Healthcare	22,100	21,200
Industrials	12,100	11,300
Information technology	44,000	37,700
Mutual funds	15,400	15,600
All other sectors	7,500	10,400
Total equity securities	164,700	156,100
Cash equivalents	29,600	12,400
Total	$ 194,300	$ 168,500

Note 9. Retirement Income Plans and Postretirement Benefit Plans Other than Pensions *(continued)*

Pension and Postretirement Plans Asset Investment Narrative

The strategic asset allocation framework as updated in 2020 continued to be implemented during 2021, transitioning core fixed income to long duration, and the continued increase of alternatives. The investment policy of the pension and postretirement plans specify the broad asset classes used by the pension plan for investment purposes and the general principles used in managing the plans' assets. The strategic asset allocation framework includes the asset classes that may be used and the ranges for each of the asset classes and sub-classes. The overriding objective for managing pension investments is to optimize plan surplus and long-term total return of plan assets within constraints established to control risk and volatility. The strategic asset allocations and ranges were updated and segregated within four primary asset classes representing the primary layer of asset allocation. The broad categories are equities, fixed income, alternatives, and cash and cash equivalents. The primary equities allocation includes ranges for U.S. and international equities categories. The fixed income allocation includes core, long duration and opportunistic fixed income. The alternative asset allocation includes absolute return and private investment options. The current approved ranges for the four asset classes in the U.S. pension fund, which is also the largest of the retirement plans, are as follows:

Asset Class	Range
Equities	35 – 65%
Fixed income	30 – 60%
Alternatives	0 – 20%
Cash and cash equivalents	0 – 20%

The portfolio construction is based on prudent investment principles, including diversification of securities and ongoing analysis of the fundamental and valuation factors underlying the securities owned, and external funds managed.

The equities allocation includes individual common stocks, and equity commingled and mutual funds. Equity investments are based on the fundamental analysis of investment variables, including earning prospects, cash flow, balance sheet strength, competitive positioning and other factors. Diversification has been emphasized with a measured increase in equity strategies with different styles and capitalization, managed by prudent investment managers, and include U.S. and international equities. Investment returns are benchmarked and monitored against standard indices, including S&P 500, Russell U.S. indices, and MSCI global stock indices.

The fixed income allocation consists of debt securities, including individual securities, primarily in the high-grade core and long duration fixed income sub-category strategies, debt mutual funds, as well as opportunistic fixed income strategies, managed by institutional investment managers and teams. Debt securities are actively managed, using best practice investment disciplines and for the majority of the fixed income portfolio, provide a lower risk, high-quality complement to the total pension investment portfolio.

The alternatives allocation includes private equity; private credit; real assets, including real estate and infrastructure; and absolute return liquid alternatives strategies.

The cash and cash equivalent category includes short-term investments, defined as debt securities with a maturity of less than one year, and are held primarily for liquidity purposes and secondarily to reduce duration of fixed income securities when warranted by interest rate levels. Capital preservation is the primary consideration of investment in this asset class; therefore, only the highest quality investments are used. This allocation primarily includes money market funds, commercial paper carrying the highest quality ratings, and cash.

(in thousands)

Note 9. Retirement Income Plans and Postretirement Benefit Plans Other than Pensions *(continued)*

Expected rate of return assumptions are created based on assessments of long-term behavior and performance expectations of asset classes. As part of the process, historical relationships of asset classes and risk-free rates are considered. The analysis incorporates historical returns and long-term forward-looking return assumptions for the strategic asset allocations framework and mix, along with the baseline risk-free rate. The long-term expected rate of return is adjusted based on structural moves, if any, in the underlying market conditions, or any material changes to the strategic asset allocation mix. The expected return for the plan blends the return assumptions for the strategic asset allocation mix, including equities and other growth assets, and fixed income allocations, along with a nominal allocation to cash and cash equivalents for periodic pension benefit payments.

Cash Flows

Employer Contributions	Pension and Supplemental Benefits	Other Benefits
2020	$ 18,200	$ –
2021	4,600	–
2022 (expected)	4,200	–

Contributions by participants to the other benefit plans were $700 for each of the years ended December 31, 2021 and 2020.

Benefit Payments	Pension and Supplemental Benefits	Other Benefits	Other Benefits (Government Subsidy)
2020	$ 106,100	$ 11,600	$ 400
2021	110,200	11,200	400

Estimated Future Payments	Pension and Supplemental Benefits	Other Benefits	Other Benefits (Government Subsidy)
2022	$ 116,600	$ 12,100	$ 400
2023	121,100	11,700	300
2024	125,900	11,200	300
2025	131,100	10,800	300
2026	137,400	10,500	300
2027 – 2031	790,100	49,000	1,000

The Company also sponsors a 401(k) savings plan whereby eligible employees may elect annually to contribute from 1% to 50% of their base pay on a pretax or after-tax basis. Employee contributions are restricted to Internal Revenue Service limits. The Company matches pretax and after-tax contributions up to 6% of the employee's base pay. Company contributions to the plan were $25,700 in 2021 and $24,200 in 2020.

(in thousands)

Note 10. Components of Accumulated Other Comprehensive Loss

The changes in accumulated other comprehensive loss by component, net of income tax, for the year ended December 31, 2021, are as follows:

	Unrealized Appreciation on Investments in Debt Securities	Benefit Plan Assets and Liabilities	Foreign Currency Translation Adjustment	Accumulated Other Comprehensive Loss
Balance at January 1, 2021	$ 325,600	$ (734,700)	$ (165,000)	$ (574,100)
Other comprehensive income / (loss) before reclassifications	(164,900)	246,800	(76,000)	5,900
Amount reclassified from accumulated other comprehensive loss	(23,400)	49,900	–	26,500
Net current period other comprehensive income / (loss)	(188,300)	296,700	(76,000)	32,400
Balance at December 31, 2021	$ 137,300	$ (438,000)	$ (241,000)	$ (541,700)

The following are reclassifications out of accumulated other comprehensive loss to net income for the year ended December 31, 2021:

Unrealized appreciation of investments in debt securities:		
Net realized investment gains	$ 32,500	
Other than temporary impairment losses	(2,700)	
Total before tax	29,800	
Income tax expense	(6,400)	
Net of tax	$ 23,400	

Amortization of benefit plan amounts:		
Actuarial losses	$ (65,600)	(a)
Prior service cost	2,400	(a)
Total before tax	(63,200)	
Income tax benefit	13,300	
Net of tax	$ (49,900)	

(a) These accumulated other comprehensive loss components are included in the computation of net periodic cost (see Note 9).

(in thousands)

Note 10. Components of Accumulated Other Comprehensive Loss *(continued)*

The changes in accumulated other comprehensive loss by component, net of income tax, for the year ended December 31, 2020, are as follows:

	Unrealized Appreciation on Investments in Debt Securities	Benefit Plan Assets and Liabilities	Foreign Currency Translation Adjustment	Accumulated Other Comprehensive Loss
Balance at January 1, 2020	$ 184,900	$ (640,500)	$ (298,200)	$ (753,800)
Other comprehensive income / (loss) before reclassifications	197,200	(131,200)	133,200	199,200
Amount reclassified from accumulated other comprehensive loss	(56,500)	37,000	–	(19,500)
Net current period other comprehensive income / (loss)	140,700	(94,200)	133,200	179,700
Balance at December 31, 2020	$ 325,600	$ (734,700)	$ (165,000)	$ (574,100)

The following are reclassifications out of accumulated other comprehensive loss to net income for the year ended December 31, 2020:

Unrealized appreciation of investments in debt securities:		
Net realized investment gains	$ 75,200	
Other than temporary impairment losses	(3,300)	
Total before tax	71,900	
Income tax expense	(15,400)	
Net of tax	$ 56,500	
Amortization of benefit plan amounts:		
Actuarial losses	$ (50,000)	(a)
Prior service cost	3,100	(a)
Net transition asset	100	(a)
Total before tax	(46,800)	
Income tax benefit	9,800	
Net of tax	$ (37,000)	

(a) These accumulated other comprehensive loss components are included in the computation of net periodic cost (see Note 9).

Note 11. Subsequent Events

Subsequent events were evaluated through March 10, 2022, the date the Company's consolidated financial statements were available to be issued. No material transactions occurred after the balance sheet date that would impact the Company's consolidated financial statements.

CORPORATE GOVERNANCE

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Chief Operating Officer

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Senior Executive Vice President
Chief Financial Officer

Sanjay Chawla
Executive Vice President
Chief Investment Officer

Deanna R. Fidler
Executive Vice President
People, Strategy, Technology

James R. Galloway
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Chief Client Experience Officer

Philip Johnson
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Jeremy Gallant
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Forest Products Operations

Richard M. Gillen
Operations Senior Vice President
Mutual Boiler Re

Pamela J. Griffing
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Global Tax Manager

Angie Henderson Moncada
Staff Senior Vice President
Marketing

Achim Hillgraf
Operations Senior Vice President
Frankfurt Operations

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St. Louis Operations

Allan J. Johnson
Operations Senior Vice President
Head of Power Generation

Derry K. Johnson
Staff Senior Vice President
Global Sales

Austin T. Larkin
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Atlanta Operations

Loïc Le Dréau
Operations Senior Vice President
Paris Operations

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Michel Turcotte
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Chukie Wijegoonewardane
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